reason

Free Minds and Free Markets / May 1983 / $2.00

THE PRIVATE PATH TO SAFE SKIES

Anniversary Issue

William Tucker
Arthur Laffer
Thomas Szasz
Robert Poole, Jr.
Tibor Machan
John Hospers

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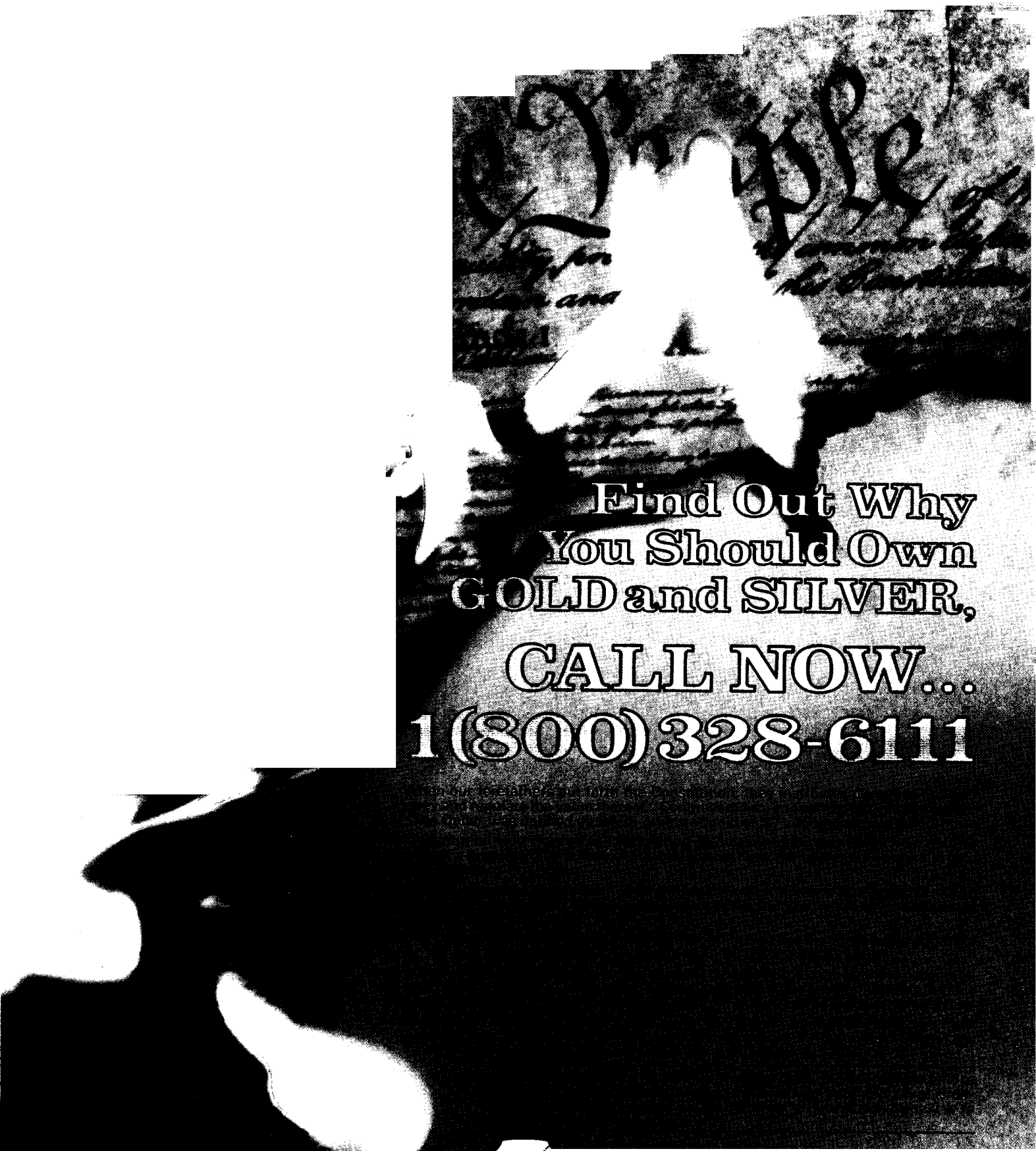

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MAY 1983/VOL. 15, NO. 1

reason

Free Minds and Free Markets

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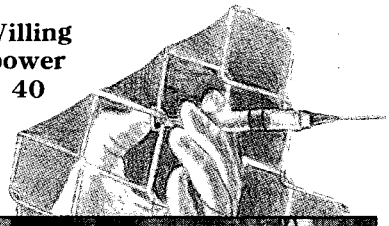

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NOTES

This issue marks 15 years of REASON. The very first issue appeared in May 1968. Created by Boston University journalism student Lanny Friedlander, it was six pages long, mimeographed, and went to about 100 people. By the time Manny Klausner, Tibor Machan, and I (along with three other partners) took it over at the end of 1970, it had become a handsome, offset-printed magazine—but still had less than 500 subscribers.

From 1971 through 1977 REASON grew to over 15,000 subscribers, despite being run on a volunteer basis by a part-time staff. As Marty Zupan documents (see pages 53-57 of this issue), the magazine attracted an exciting collection of writers—people like Edith Efron, Alan Reynolds, Paul Craig Roberts, Thomas Szasz, and many others—and interviewed people such as F. A. Hayek (before he won his Nobel Prize) and Ronald Reagan (long before he was elected president).

A major milestone occurred in REASON's 10th year: creation of the Reason Foundation. With the support of a full-time think tank behind it, the magazine took a quantum leap forward—in design, in circulation (now approaching 35,000), and in content, most notably with the development of an active program of investigative journalism. These efforts have borne fruit in the form of major media coverage of REASON stories (including five on network TV) and three national journalism awards.

For this special anniversary issue we've gone all out to bring you a memorable collection of material: an investigative article on private-enterprise airport control towers, major articles by major contributors, reports from our correspondents overseas, and a look behind the scenes with yours truly. I hope you like it.

There are follow-ups to several REASON articles to report on this month. First of all, a federal district judge has upheld our contention that the First Amendment shields investment newsletters from regulation by the Securities and Exchange Commission. The court ruled in February in the case of Christopher Lowe, one of the publishers discussed in our January cover story. For their February 3 story on the case, the *Washington Post* called our coauthor, Michael McMenamin, and quoted him praising the decision as a "tremendous ruling for the First Amendment."

Other media have been taking up topics aired by REASON. Eight months after our cover story (May 1982) on James Ramsey's proposal to sell off the New York subway system, *National Review* has published Professor Ramsey's own piece on that issue (Feb. 4, 1983). And an anonymous reader has sent us a copy of an article from a recent issue of *Outside*, portraying eco-terrorists as "eco-pranksters," in contrast to our sober February article on that subject by Ron Arnold.

—R. P.

Durk and Sandy are finishing work on a new book and traveling a lot to do interviews, so they've asked to be able to take an occasional break from providing their Health & Welfare column every month. That explains their absence this month—but they'll be back.

We've been touched and tickled by some of the notes sent in by original subscribers in response to our query a few months back. This excerpt is typical of the kudos we've received: "I subscribed in 1968 and have not missed a year since. Over the years I have been delighted at your continued success and improvement." Said another: "Ever since I subscribed in 1969, it has been my favorite magazine. Moreover, after all this time, I still look forward to REASON's arrival each month (weekly would be better)."

We stirred memories of format: "I began taking REASON when it was stapled together by hand" or "I vaguely remember that the first issues were poor-quality mimeographed." Some people mentioned the magazine's creator, Lanny Friedlander.

One confessed, "Yes, I go back to Massachusetts and Friedlander," and asked, "What penalty do I suffer?" Perhaps another subscriber has the answer: "I believe that I am an early subscriber, for in the interval I have grown old, lost most of my mind, and all of my memory—well, nearly, anyway." But the same reader heartened us with the reassurance: "I am sure REASON will last as long as our nation does, at least. If we survive, REASON will have contributed its full share."

Thank you, fans! We hope you're still with us in 1998.

—M. Z.

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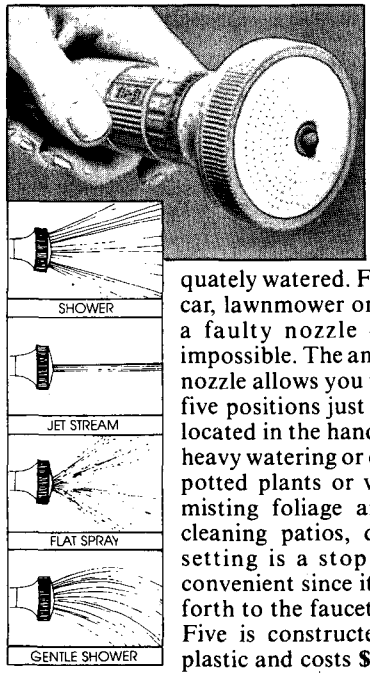
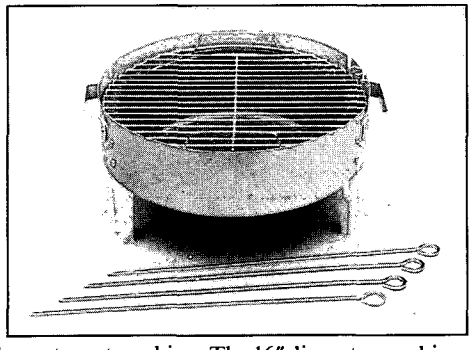


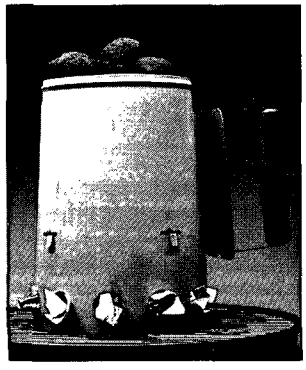
Flow Control Hose Nozzle

The biggest problem with most hose nozzles is getting and maintaining the desired water flow. Too much water pressure can damage plants, too little and your plants aren't adequately watered. For other jobs, like washing the car, lawnmower or cleaning your house gutters, a faulty nozzle can make the task all but impossible. The answer is Nozzle Five. This hose nozzle allows you to set the water flow to any of five positions just by turning the slider controls located in the handle. Use the shower setting for heavy watering or car washing, gentle shower for potted plants or window boxes, flat spray for misting foliage and the jet stream for force cleaning patios, decks and gutters. The fifth setting is a stop action which is especially convenient since it eliminates running back and forth to the faucet to shut off the water. Nozzle Five is constructed of durable, non-corrosive plastic and costs **$11.00** ($1.95) #A481.

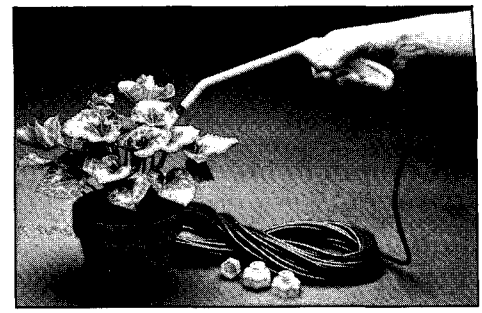
All-American Mini-Grill



Here is one grill that won't confine your cookouts to the backyard. The Mini-Grill's convenient, compact size gives it complete portability. It's just the thing for picnics, parties, camping and apartment cooking. The 16" diameter cooking surface makes it easy to carry from place to place, yet the chrome-plated grill is large enough to cook up to 8 lbs. of T-bone steaks! You can even make your own delicious shishkebabs with the four chrome-plated skewers included. The charcoal pan has a porcelain enamel finish for long life and easy clean up. This durable, rust-resistant grill weighs just 8 lbs. and stands only 8" high. We offer this take-along grill for just **$27.00** ($4.95) #A625. To fire the coals in your charcoal grill we've found a lighter that is quicker, safer and tastier than any charcoal-starter fluid on the market. Easy-Embers. Using fireplace-like draft and newspaper, Easy Embers, shown at left, will ignite 4½ lbs. of charcoal in less than 10 minutes. Just light one or two balled sheets of newspaper stuffed in the base of the heavy-gauge steel cylinder. When the briquets are fully ignited, simply pour them out of the container into your grill. The Easy Embers costs **$15.00** ($2.95) #A433.

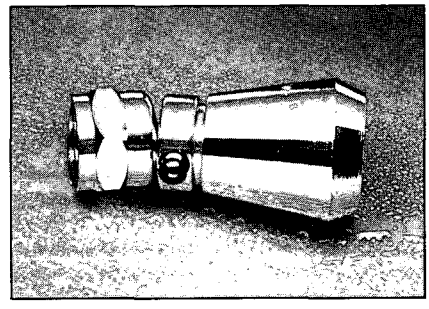


Watering Whiz



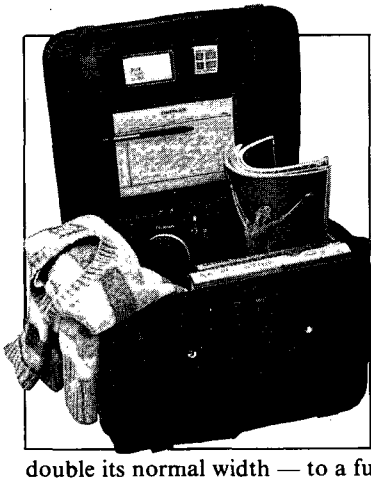
Now you can water all your plants in a single trip with this handy indoor garden hose. This 50' vinyl hose comes with a set of four adaptors that readily attach to most indoor and outdoor faucets. From there you just take the water where you want it — an easy-control handle allows you to turn a splashless stream of water on and off as needed. There's a snap-in misting attachment, so after you water the roots you can spray the foliage. The complete indoor garden hose kit costs **$11.00** ($1.95) #A681.

Savings In The Shower



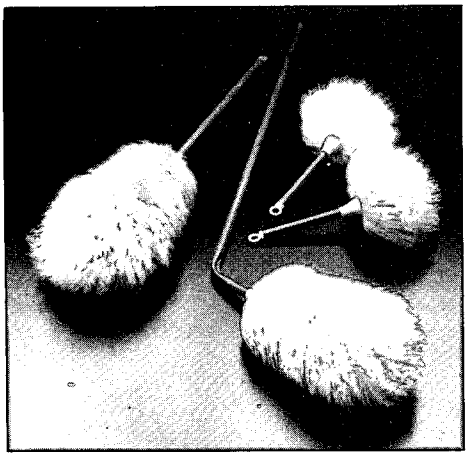
This finely crafted shower head called the Deluxe Fuel Saver cuts the use of water — hot water — in the shower from 5 or 8 to 2.45 gallons per minute. With the conventional shower head, the average family of four uses 300 to 400 gallons of water — much of it heated — everyday. According to U.S. Department of Energy figures, with the Deluxe Fuel Saver that same family uses 70% less water in the shower and realizes a savings of between $150 and $350 depending on the utility rates. Although the amount of water is significantly reduced, it is aerated and accelerated — utilizing the Venturi principle — for an invigorating shower. The Deluxe Fuel Saver also offers a "trickle valve" that allows you to stop water flow while soaping up. Made of chrome-plated solid brass, the Deluxe Fuel Saver is accompanied by a one-year limited warranty. It installs easily over the standard ½" shower arm with pliers or a wrench — no plumber is needed. We offer the Con-Serv Deluxe Fuel Saver for **$16.00** ($2.95) #A351.

Shouldering Your Load



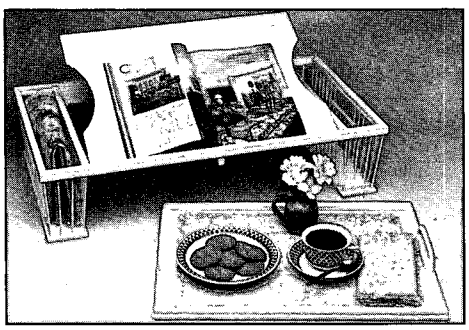
This oversize bag is an overwhelming success with photographers, artists, students, musicians, dancers, opera singers, nuns, poets, duck hunters, cyclists, plumbers, teachers, reporters and travelers... because it's a veritable labyrinth of roomy pockets. Its real name is the Danish Bookbag. It's been called the best device for carrying things ever invented. Made of waterproof canvas that wears like iron, the bookbag has an unusual zipper design that enables the bag to expand to double its normal width — to a full 8 inches — so there's always a place to stuff one more thing. It also has two outer pockets in front and a large back pocket. An adjustable 2" wide strap makes the burden easier. Choose grey #A483, brown #A484, blue #A569 or red #A568. **$59.00** ($3.95).

Attract Dust Like A Magnet



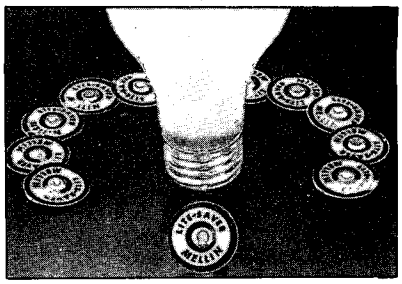
If we ever compile a book on *The Old Ways That Were Better Ways,* we will certainly include a chapter on lambswool dusters. These remarkable implements originated, the best we can tell, in 19th-century England where they quickly put the feather duster to shame. On its own lambswool actually attracts and holds dust like a magnet. The static charge in the wool causes dust literally to leap off surfaces where it has accumulated, making these dusters just the thing for dusting bric-a-brac, china, crystal, pictures and other fragile items. When soiled, just wash in warm soapy water, let dry and fluff out. Recently we were introduced to two exciting new versions of our old time favorite, the mini-duster and the bent-handled duster. The standard 27" long duster costs **$7.00** ($1.95) #A780; the bent-handled model is **$8.00** ($1.95) #A781; two mini-dusters cost **$8.00** ($1.95) #A794. We can send you the entire group, a total of four dusters, for just **$16.00** ($2.95) #A783 (it's almost like getting one duster free!).

Breakfast In Bed



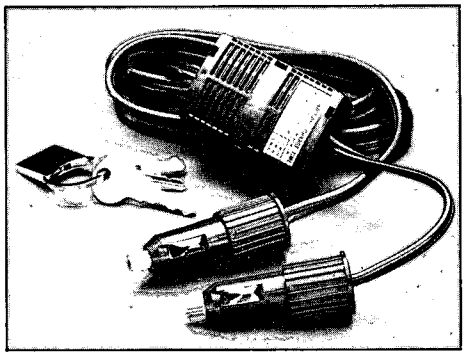
Breakfast in bed is the epitome of romantic luxury. But to pull it off properly you need the right tool — the classic hardwood breakfast tray that spans your legs in comfort and provides a self-supported stable surface. This deluxe white bedtray offers ample space, baskets at either hand and a removable 15" x 21" serving tray in the middle. When you finish eating, tip up the adjustable center section and flip leisurely through your favorite magazines or the morning mail. It makes breakfast in bed the truly carefree indulgent experience it ought to be. Of course if you care about more pedestrian practicalities, it also makes a fine portable desk for armchair or couch and is great for cardplaying and other activities when the kids are sick in bed. The ultimate bedtray measures 30" x 16½" x 8" and costs **$75.00** ($5.95) #A677.

Lite Savers



If you're tired of climbing ladders and getting into precarious (often dangerous) positions to change an out of the way light bulb then you should know about Mellin Lite-Savers. Adhered to the base of any *one way* bulb the Lite-Savers can extend bulb life from 50 to 100 times! Just think of the money saved in light bulbs! Most bulbs have a rated life of 750 hours or 32 days if used continuously. With Lite Savers your bulbs will burn up to 75,000 hours or about eight years if used 24 hours a day. They're ideal for hallways, staircases, or anyplace where replacing light bulbs is a time consuming nuisance. You'll notice that Lite-Savers reduce light output so you may want to increase bulb wattage. They're safe, dependable and install quickly and easily with any one way bulb. The manufacturer offers a limited eight year warranty. We offer the Lite-Savers in a package of 6 for **$17.00** ($1.95) #A548, 12 for **$27.00** ($2.95) #A549 or 24 for **$49.00** ($3.95) #A642.

Beyond Jumper Cables



Your car battery is dead. How would you like to recharge the battery and start the car *without ever even opening the hood?* Sound impossible? It's not, thanks to the Easy Charge, which takes the old idea of jumper cables and refines it to a new level of ease, convenience and safety. With traditional jumper cables you have to maneuver a second car fender-to-fender with the disabled car, open both hoods, and attach leads from battery to battery. The Easy Charge simplifies this process brilliantly by substituting connection from cigarette lighter to cigarette lighter. You just plug one end of the Easy Charge into the lighter of a running car, pass the 16' cord through both car windows and insert the other end in the lighter of the disabled car. A trickle charge immediately starts flowing into the dead battery. After a few minutes' wait the battery is recharged sufficiently to restart the car. The Easy Charge is small enough to fit in the glove compartment. **$20.00** ($2.95) #A629.

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Robert Poole, Jr.

Rhetoric Is Not Enough

In January 1981 on this page, we were cautiously optimistic about the possibilities for freedom under the incoming Reagan administration. Midway through Reagan's term, however, it's become apparent that while our reservations were justified, our hopes were greatly exaggerated.

I write these words with sadness. Eight years ago Ronald Reagan told us of having derived many of his ideas from free-market thinkers like Ludwig von Mises and F. A. Hayek. I have no doubt he was telling the truth—and that he still believes in those ideas. Indeed, as I sat down to write this editorial, a letter of congratulations on REASON's 15th anniversary arrived—from Ronald Reagan himself.

The grim reality, however, is that Ronald Reagan has been unable or unwilling to translate most of his free-market, individual-rights ideas into action. To be sure, there are a few bright spots for advocates of liberty. Ronald Reagan did push through Congress a major reduction in personal income tax rates—and seems determined to fight to preserve those gains. He accelerated the decontrol of oil prices and appointed a solid deregulator to head the Federal Communications Commission. And what other administration would have scuttled the collectivist Law of the Sea treaty? Weighed against these and a few other modest achievements, however, is a vast array of failures, missed opportunities, and outrages.

The most dramatic is the administration's utter failure to control—let alone cut—federal spending. Despite the warnings of an "economic Dunkirk" by Jack Kemp and David Stockman, Reagan failed to seize the opportunity, during his initial honeymoon period, to level with Congress and the public that federal spending is dangerously out of control. Exempting so-called entitlement programs—including Social Security and Medicaid—from cutbacks while encouraging Congress to cut taxes led directly to today's $200-billion deficits.

Equally serious is the administration's failure to rethink national defense policy. In every major respect, other than rhetoric, it is simply carrying on the policies of Nixon, Ford, and Carter—continued reliance on the balance of nuclear terror (instead of building defenses against nuclear attack), heavy-handed attempts to shape the outcomes of other people's quarrels (in the Middle East and Central America), and continued massive subsidy of the defense of our wealthy allies (Europe and Japan). Ronald Reagan *could* have sought a new mandate from the American people: to rebuild our *own* defenses while weaning our allies from their accustomed subsidies. *That* kind of defense effort we could easily have afforded.

In addition, Ronald Reagan is the only president in recent memory who understands the dishonesty of fiat money and the real destructiveness of the inflation it produces. Yet he allowed the 1981 Gold Commission to be stacked with paper-money advocates and thus let another major opportunity go down the drain.

Despite his fine talk about getting government off our backs, Ronald Reagan has endorsed dramatic new assaults on personal freedoms. His capitulation on draft registration led to the departure of several libertarian staff members. His expanded "war on drugs" is pouring billions down a rathole while leaving the drug traffic virtually unchanged. And his attempt to have the federal government take sides on such intensely personal matters as abortion, school prayer, and sex education needlessly polarizes people on matters best left to individual choice and voluntary action.

Then there is the perversion of the idea of "free-market" solutions. Instead of real deregulation—which during the presidential campaign meant abolishing agencies like the Consumer Product Safety Commission, the ICC, and OSHA—the administration has proceeded with "regulatory reform." What this amounts to is heeding the pleas of business leaders to take the rough edges off the regulations while leaving the agencies and their legislative mandates intact.

Numerous studies, including some of our own, have demonstrated the ineffectiveness and counterproductiveness of centralized command-and-control regulation. Many of these studies suggest exciting, creative alternatives that rely on market pricing, liability laws, and insurance rather than bureaucratic directives. Yet the administration could not even propose a rethinking of the Clean Air Act, let alone a decentralized alternative to the EPA!

At the same time, disregarding David Stockman's warnings, the administration fought for cuts in welfare programs while leaving intact billions in subsidies for the well-off: a synfuels program still offering a $67-a-barrel price guarantee for shale oil, billions more in subsidies to farmers, increased funds for the Export-Import Bank, and mind-boggling bailouts of the major banks, saving them from the consequences of their short-sighted loans to Mexico and Poland. This from people wearing Adam Smith ties!

What happened to the man who read Mises and Hayek, Bastiat and Hazlitt? Why is the reality so different from the rhetoric? Some say that that's just the way politics is, compromise being the stuff of which it's made. Others see Reagan "captured" by the Eastern Republican Establishment, allowed out now and again to keep the grass roots in line, but essentially constrained to preserve big-government-as-usual.

Whatever the explanation, it's tragic to see so little real results from a man with such fine principles. It's tragic, first of all, because the libertarian ideas of Hayek and Mises offer far better solutions than big-government-as-usual. And it's also tragic because the media have simple-mindedly equated Ronald Reagan's programs with his rhetoric. Thus, whether they succeed or fail, Reagan's centralized, interventionist, big-government policies are being labeled as "laissez-faire" or "free-market" solutions. It is that misconception which advocates of liberty must do everything in their power to counteract—if there's to be any hope for trying *real* free-market ideas in some future administration.

Robert Poole, Jr.

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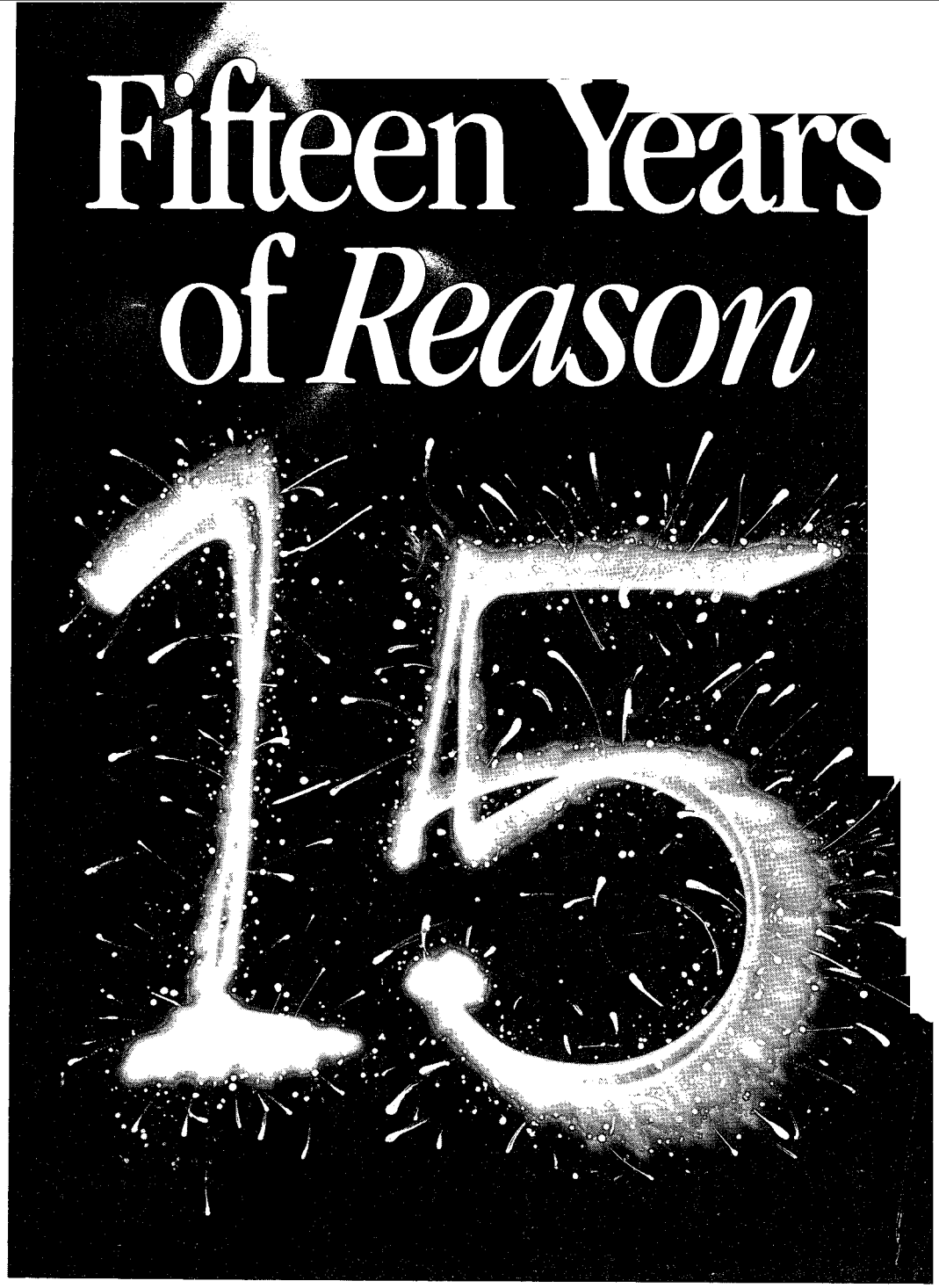

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Letters

IRA Error

I was moved to tears by Steven Beckner's Money column, "IRA Alert," in the February issue. In his second paragraph, Steve tells us about "Individual Retirement Accounts (IRAs) and Keogh plans (which can be funded for 1982 up until April 15, 1983, if the accounts were established in 1982)." When I first read this, I interpreted the second parenthetic remark to refer to both IRAs and Keogh plans. Of course, it does not. IRAs can be established up until April 15, 1983, to defer income taxes on 1982 income. I hope none of your readers think they've missed the boat on IRAs.

James M. Sime
East Hartford, CT

The editor's reply: We acknowledge the error and apologize both to our readers and to Mr. Beckner, whose original column included no such misinformation. Unaware that the law had been changed since last year, we added the parenthetical remark. Next time we'll remember that not two but *three* things are certain: death and taxes and changes in the tax laws.

Turkey Harm?

"The Turkey Ballot" by Robert Bakhaus (Feb.) was good, but it should have made one point more clearly than it did. There are two possible reasons for not voting for any of the candidates for a particular office in an election: both candidates seem equally well qualified, or both candidates seem unacceptable. I suspect that when most people don't vote, they expect that they will like whichever person is elected well enough. So the Turkey (Nobody) vote selects out the particularly bad candidates.

Ralph M. Lake
Bethesda, MD

No Deal

The article "Double Dealing" was interesting mostly because I did not expect to see socialist rhetoric in REASON. When a person states that you must give up free trade because the real-world situation demands it, then that person obviously does not believe in the theory of freedom. Either it works in practice, or the theory is wrong....

There has never existed true political freedom in the United States. Articles such as this, which promote the idea that "we" should do something to prevent the individual from conducting his own business as he determines, make me fear for *ever* having political freedom....

Fritz Knese
Dayton, OH

Subsidy Embargo

Juliana Pilon's excellent article on the conflict between US and Soviet technology sales and national security omitted a point of law which I hasten to add. If we define freedom as freedom from coercion, we cannot turn around and legalize the intentional receipt of stolen goods or goods produced through the involuntary servitude of noncriminals and call that "free" trade. Our Constitution

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reflects this logic by outlawing slavery and defining treason as "adhering to (the United States') enemies, giving them aid and comfort."

Although a trade embargo is arguably legal and has even been supported by that defender of the free market Ayn Rand, other alternatives also exist.... The simple removal of government protection of contracts, loans, and assets owned by corporations engaged in double dealing would cause them to face the stark realities inherent in doing business with thugs.

Hank Phillips
Austin, TX

Strategic Bargaining

Juliana Pilon's "Double Dealing" addresses the important question whether a government that is supposed to be devoted to freedom and free trade may forbid private firms from engaging in trade that significantly strengthens threats to our freedoms. As Pilon realizes, it is a hard call to say when, in effect, militarily useful trade with a potential enemy counts as so threatening to individuals' rights that their agents may legitimately prohibit that trade.

May I suggest a practical end-run around this hard theoretical question? This end-run is based on the very fact systematically emphasized in Pilon's essay, namely, that the US firms that sell the goods most clearly useful to the Soviet military are, typically, the very same firms that hold enormous defense contracts with the US government.

It is clearly within the rights of any potential purchaser of goods to stipulate as a condition of its purchase agreements that those from whom it buys not engage in business with specified third parties. The US government, then, may simply say to a firm that the benefit of a government contract will be withheld unless that firm agrees not to sell specified militarily useful products to the Soviets. Such a strategy would not need the sort of rigorous justification required by the forcible suppression of trade....

Eric Mack
Department of Philosophy
Tulane University
New Orleans, LA

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Bob,
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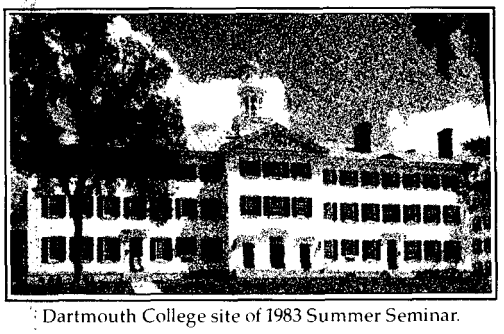

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brickbats

Boston's energetic meter maids have a never-say-die attitude when it comes to ticketing illegally parked cars—even when the motorist is no longer breathing. Although it's fairly common knowledge that dead men pay no fines, this fact seems to have eluded the parking enforcement officers who *twice* ticketed a parked car whose driver—keys clutched in his hand and car door ajar—slumped dead behind the wheel. Homicide detectives would like to know why the ticket writers didn't try to wake the man or call police.

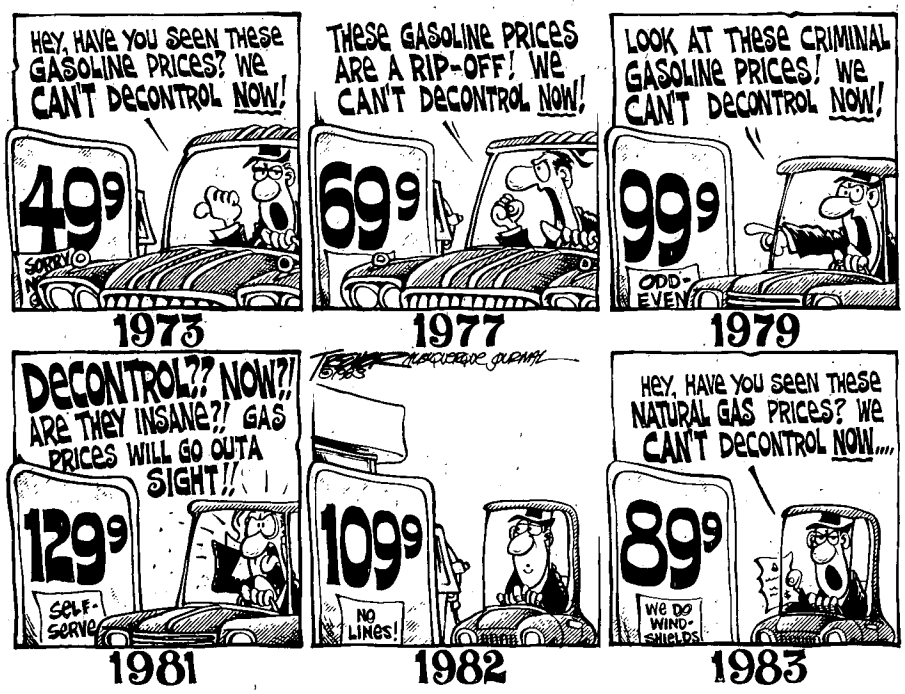
Score another victory for modern psychiatry and the insanity plea. Matthew Quintiliano, a former Connecticut cop who was acquitted by reason of insanity of shooting his first wife to death in 1975, has been charged with shooting to death his second wife. After killing Wife No. 1, Quintiliano was committed to a state mental hospital and released *three months* later when his shrink testified that the former policeman was no longer a danger to himself or others. Makes you wonder whose head should have been examined.

We can all rest easy now that we know the federal government will spend $500,000 to spruce up the shabby-looking railroad station in Kenilworth, Illinois. Of course, the rich little Chicago suburb—one of the wealthiest communities in America, with an average family income of more than $90,000 a year—could have financed the face-lift itself, but no one even suggested that. So the work is proceeding under federal urban mass transit funding appropriated by Congress three years ago. Project critic James Fox says there's a moral to the story of Kenilworth, a town so conservative that Adlai Stevenson received only five votes there during the 1952 presidential election: "Even among the bluest of the blue bloods, in a bastion of conservatism, fiscal responsibility gets only lip service when a half-million dollars in someone else's tax money is being spent on your own little railroad station."

Little Calvin Herring would not eat his broccoli, so a Houston public school teacher and an aide physically held the little brat and shoved the tasty vegetable down his throat. The 9-year-old boy had to be treated in a hospital for vomiting and strained ligaments in his right arm. The young felon had the audacity to buy two lunches when he was allowed only one under teachers' rules. Acting on a complaint from Calvin's mother, Houston police arrested the two "educators," who face charges of injuring the child. As if the first offense wasn't bad enough, Houston school administrators have rallied behind the two child-beaters, insisting that they were following proper policy. No disciplinary action has been taken. "I can't believe they had to treat him this way just over a school lunch," says Calvin's father. "Couldn't they have just sent a note home?"

What a difference a dash makes. New York Criminal Court Judge Bud Goodman refused to accept a $2 check that Robert Scalia mailed to the court to pay a jaywalking ticket. Why? Scalia wrote an obscenity on the check to express his anger about being busted for crossing against the light on the same block where drug peddlers, prostitutes, and muggers were plying their trades without any legal interference. The judge ordered Scalia to appear in court to pay the fine. A court clerk tore up his old check, and the judge ordered Scalia to write a new one. He did, but this time he wrote "A-S WHOLE" instead of the like-sounding vulgarity that appeared on the first check's Memo line. The court accepted the second check without question. "A tremendous waste of court time and taxpayer money," Scalia said.

The General Accounting Office found that the Defense Department spent more than $1.2 million in 1981 to entertain visiting foreign military brass. There was that elegant $500-per-person dinner for three foreign guests that included 74 Defense employees and their spouses. A 10-day visit by the Spanish army chief of staff cost the US Army $16,000 for the military aircraft alone. The chief and his party of three visited such "military" installations as Disney World in Florida and some of New York's finest restaurants. Among some of the incidental items the Pentagon paid for were $345 to escort 12 other foreigners through Disney World, $270 for tickets to a Madison Square Garden horse show, and $87 to guide dignitaries through New York's Metropolitan Museum of Art and Rockefeller Center. Pentagon officials say "the worth of these visits cannot be measured in dollars and cents because they are so interwoven in our total strategy for defending this country." We're sure that Mickey, Donald Duck, and Goofy will feel a lot safer now.



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TRENDS

STATES' SECRETS FOR PROSPERITY

Is there a relationship between taxes and economic growth? Free-market economists have said there is—when taxes are high, economic growth is stunted; when taxes are low, economic growth is stimulated. Now, a study published in the Fall 1982 issue of the *Journal of Contemporary Studies* offers dramatic evidence supporting that proposition.

In "Rich States, Poor States," Richard K. Vedder compared the tax burdens and the economic growth rates of all 50 states, and his findings were, as he says, "striking." For example, the income tax burden in the high-growth states was an average of 55 percent lower than in the low-growth states, and the property tax burden was an average 37 percent lower. "If this relationship [between taxes and economic growth] is valid," he said, "it follows that the income-generating effects of public expenditures financed by state and local taxes are more than offset by the income-destroying disincentive effects of the taxes."

Vedder acknowledged that the high-growth states in the Sun Belt benefit from a better climate, lower energy costs, and less dependence on stagnating manufacturing employment, but he suggested that this is not the decisive factor in economic growth. For example, North Dakota and Alaska were high-growth states in the 1970s while Hawaii and Arizona were low-growth states. Furthermore, New Hampshire—a low-tax state—enjoyed almost twice the economic growth rate of heavily taxed New York, even though both have a similar climate and similar energy costs.

Vedder also discovered some interesting correlations between a state's economic growth and the kinds of taxes it imposes on its citizens. Evidently the biggest dampers on growth are income taxes and property taxes (Vedder notes that they "lower the rate of return on capital investment in either human or physical forms"), but sales taxes "did not seem to have the same debilitating effect." And some income-tax structures are less harmful to economic growth than others: states with "a steeply progressive rate structure tend to grow slower, other things equal, than states with flat-rate income taxes."

An advantage of the federal system, Justice Brandeis once noted, is that individual states can be seen as laboratories: when states test an idea that works, the rest of the country can adopt it, but if an ideal falls flat, most people haven't suffered from the experiment. In this instance, some states have tried high taxes and others have tried low taxes, and individuals have clearly been able to do better in the low-tax states. Their less-fortunate neighbors can profit by the experience.

DEREGULATION KEEPS POPPING UP

Regulatory power in Washington sometimes seems like a big, bloated balloon—squeeze it in one place, and it bulges at another. In January, legislation was proposed in Congress to consolidate the "remaining" functions of three agencies that may close down within the next few years—the Civil Aeronautics Board (CAB), the Interstate Commerce Commission (ICC), and the Federal Maritime Commission (FMC)—into what would be called the US Transportation Commission.

Reaction from industries governed by the existing regulatory bodies has been mostly unfavorable. The American Trucking Associations, for instance, protested ICC Chairman Reese Taylor's proposal to abolish that commission, claiming that swift deregulation has already let too many newcomers into the business with resultant "predatory" pricing. And airlines that have favored deregulation fear that a new commission will only create new regulatory tangles.

Despite such attempts to retain regulatory power by shifting it to a new agency with a new name, genuine deregulatory fervor still appears to be on the rise in Washington. It received a boost recently from a group of House Republicans—the Task Force on Congressional and Regulatory Reform—who in January released a report recommending extensive cutbacks in the federal government's regulatory power. Specific proposals include totally abolishing the ICC by 1987, phasing out the CAB one year ahead of

1983

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schedule (that is, by January 1984), and eliminating most of the FMC's duties and shifting the others to the Transportation Department. (The report recommends cuts in many other areas as well, including abolition of the Postal Service's first-class-mail monopoly, immediate decontrol of all natural-gas and oil-pipeline rates, and experimentation with market pricing of electricity.)

Another boost also came in January from the Justice Department. Commenting that intense price discounting in trucking—since partial deregulation by the Motor Carrier Act of 1980—is healthy, the Justice Department advocated that the ICC promptly eliminate its remaining rate-regulation authority. The Justice Department issued its comments in ICC hearings on price decontrol, which were held in response to allegations of widespread predation and price discrimination over the past two years.

Finally, the ICC voted 3-2 in early March to deregulate railroad boxcar freight traffic and rail shipments of coal bound for export. Both decisions stirred up small hornets' nests—rail shippers and even much of the rail industry preferred the security of rates fixed by the government, and a spokesperson for coal shippers complained that the railroad industry's "captive" traffic in export coal will no longer have regulatory protection against "potentially excessive" rates. Such are the perils of reliance on the immortality of government perks.

CUTTING IN ON CABLE

Governments may be bad at most things, but when it comes to protecting their piece of the pie, look out. Cities make a bundle by selling exclusive franchises to cable TV companies and taking a cut of the action as a percentage of the cable companies' revenues. So citizens who try to bypass the system and set up their own independent service can expect the wrath of the local government. Such trouble is already brewing in several places.

The most visible controversy is taking shape in New York City. Owners of some private apartment and condominium buildings in areas of the city not yet served by cable (usually because award of the franchise is tied up in politicking) have tired of waiting for the service. So they've turned to an alternative technology: dish-antenna receiving systems. A dish antenna, placed either on the building's roof or on the ground, receives satellite signals, which are then transmitted by wire to residents' TV sets.

The city government, however, has declared that such arrangements, if not granted special permission, are illegal. But getting "special permission" means that buildings would have to apply for an independent franchise—a process of a complexity rivaled only by the farthest reaches of higher mathematics. Only buildings with 50 or less subscribers would be exempt from this requirement.

Though the city has talked tough on the issue, it has not yet brought legal action against those who have defied the rule. If the city were to press for action, a likely target would be the Bronx's Co-op City, a 15,000-unit complex that recently contracted to have a dish-antenna system installed. The price of the contract: $3.5 million.

Though many city and state officials stand firm on the city's right to regulate such private TV systems, a number of legal experts contend that the city has no authority here. A 1982 US Court of Appeals ruling supports this latter view. The ruling upheld a Federal Communications Commission decision to prohibit states from regulating master-antenna cable systems that serve large buildings.

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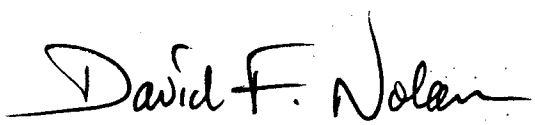

David F. Nolan
President, Project Liberty

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NEW TRICKS FOR OLD URBAN DOGS

The idea of privatizing government functions or at least contracting them out to the private sector is gaining respectability these days in unlikely places. A dramatic example was a recent conference on urban space use sponsored by such believers in government as the Lincoln Institute of Land Policy and the Los Angeles County Department of Regional Planning. A REASON staff member who attended the conference found the themes of privatization and contracting emerging time and time again in presentations by attorneys, urbanologists, HUD functionaries, and city policymakers from mayors on down.

The Brookings Institution's Anthony Downs—a respected authority on urban neighborhoods whose perspective is generally liberal—argued that we need other responses to fewer government dollars than either raising taxes or cutting services. One such alternative, according to Downs, is private-sector provision of services. "[This has] the advantage of involving more competition among service suppliers than present arrangements," Downs said. "This approach could be much more widely applied, from collecting trash to furnishing transportation to educating children."

Architect and urban planner Oscar Newman gave a presentation on the privatizing of streets in St. Louis. Newman observed that the decline of St. Louis as a whole "epitomize[s] the impotence of federal, state and local resources in coping with the consequences of large-scale population change." But on the streets owned and maintained by the residents after being deeded back from the city, there are low crime rates, stable property values, and a sense of community.

Newman's splendid presentation—novel and perhaps a little startling to most of his audience—would have been old hat for REASON readers who learned the details of St. Louis's street privatization from a cover story a year and a half earlier (see "Getting Street-wise in St. Louis," Aug. 1981). Interestingly, however, a *Los Angeles Times* report on the conference neglected to mention that Newman was talking about *privatized* streets.

There were many other examples at the conference of authorities in the field of urban affairs showing a growing recognition of the private alternative to government "solutions." Even Los Angeles County assessor Alexander Pope was reportedly making some distinctly unbureaucratic-like statements. The *Los Angeles Times* quoted him as suggesting informally after one of the sessions that all building and zoning constraints "other than those affecting health and safety" be lifted to encourage low- and moderate-income housing. "Let's turn the private sector loose and see what it can do," Pope reportedly said.

For any advocate of free-enterprise solutions to social problems, such ideas were music to the ears.

BUILDING TRUST

The benevolent potential of government regulation has always been appealing to many people. But a case in Kansas City provides a peculiarly gruesome example of the results of such regulation at the municipal level.

The Kansas City *Star* recently published an exposé of the city's department of public works after a team of reporters conducted a two-month investigation. The reporters tailed 18 of the city's 46 building inspectors and found that the inspectors were "routinely falsifying work logs, more often than not spending their working hours bar hopping and merely driving by construction sites."

What is especially disquieting about the investigation is that of the 18 inspectors, two had overseen the Hyatt Regency project—the same hotel whose walkway collapsed in 1981, killing 114 people. Indeed, one of the officials the *Star* discovered to be derelict in his duties was the city's chief inspector at a new hotel complex currently under construction in Kansas City. On a day when he reported that he spent seven hours inspecting about a dozen building sites, the *Star* found that he made only two quick stops, then spent the rest of the day with fellow inspectors at a restaurant and shopping before going home early in the afternoon, well before quitting time.

Could scandals such as Kansas City's be avoided by turning the rascals out and hiring honest and hard-working building inspectors? Perhaps, but that is ultimately only a cosmetic solution. The problem is that government building inspectors don't have any real incentive (other than fear of Kansas City *Star* reporters) to conduct competent and thorough inspections. An inspector employed by the city government has no true economic interest in whether a building lasts for two years or two centuries. The system essentially relies on inspectors being virtuous and decent—a sanguine and naive reliance at best.

Contrast this with the system in France, which puts the responsibility for a building's safety directly in the hands of the builders themselves (see "Housing: Tangled in Red Tape," REASON, Oct. 1980). A builder is liable for up to 10 years on main structural components and for two years on secondary components. As might be expected, this system has

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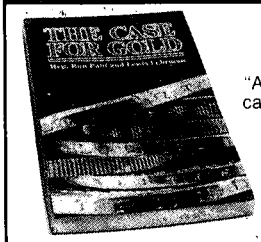

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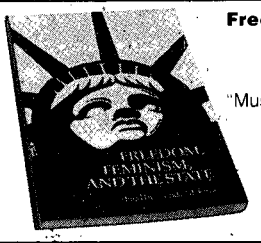

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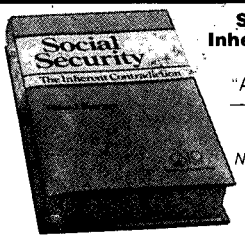

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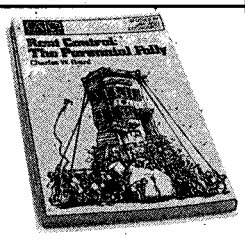

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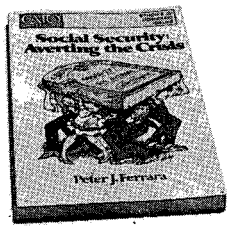

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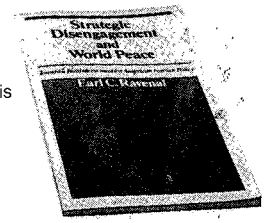

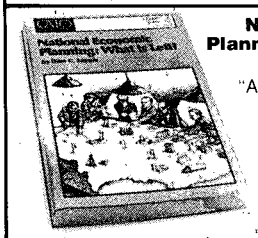

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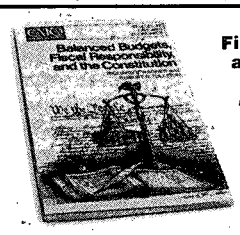

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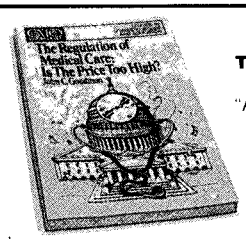

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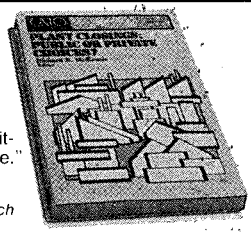

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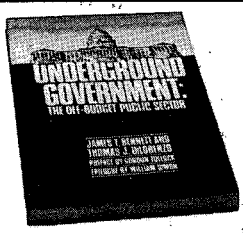

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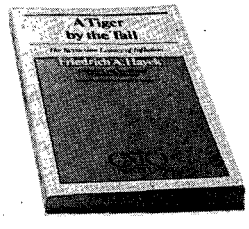

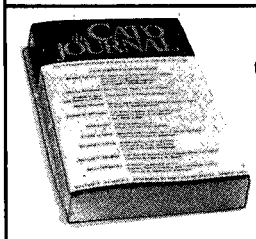

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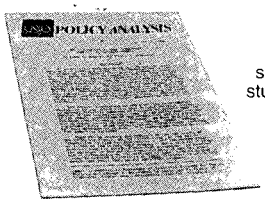

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led to private liability insurance for builders, and the four largest companies offering such insurance hire their own inspectors to check on structures during construction. French banks usually don't offer mortgages on any building constructed by a builder who doesn't carry liability insurance, and casualty insurance companies won't insure such a building.

The advantage of the French system, of course, is that it gives private builders a powerful and direct incentive to build safe buildings. As the Kansas City experience shows, the French way is far more practical than relying on the decency of strangers on government payrolls.

FDA Tries Relaxants

The Food and Drug Administration (FDA) is apparently revising some long-held, restrictive policies on drugs. For instance, the agency proposed last October to allow individuals to import certain nonapproved drugs for personal use. Assuming the proposal is cleared by the Office of Management and Budget, it should go into effect early this summer.

In addition, the FDA is proposing a considerable overhaul of its procedures for granting market approval for new drugs. Modifications would include reducing clinical trials of experimental drugs by one year and accelerating clearance of new drugs for general public use.

The agency last fall also modified its long-standing position on "the legality or appropriateness" of prescribing FDA-approved drugs for purposes other than those for which the agency has specifically approved the drug. These latter are the only uses that are legally allowed to appear on the drug's labeling. But because the agency now concedes that "accepted medical practice often includes drug use that is not reflected in approved drug labeling," the FDA now holds that " 'unlabeled' uses may be appropriate and rational in certain circumstances and may, in fact, reflect approaches to drug therapy that have been extensively reported in medical literature."

One subject on which the FDA still appears ambiguous is drug advertisements directed at consumers. Traditionally, though there is no specific law preventing drug manufacturers from promoting prescription products to the general public, only a handful have done so, and in a very limited manner. But as competition among drug products increases, some companies are more and more attracted to the idea. Many manufacturers, however, want the FDA's approval before they go ahead with such ad campaigns.

Earlier this year, there were indications that the FDA would in fact develop guidelines for consumer ads. But in mid-February, FDA Commissioner Arthur Hayes Hull, speaking before the Pharmaceutical Advertising Council, expressed doubts about the prospect of drug ads for consumers.

Giving the Feds A Run for Their Money

The federal government got into the business of insuring deposits at banks and savings and loans in 1934 as a post-crash measure. Two government insurance entities, the Federal Deposit Insurance Corp. (FDIC) and the Federal Savings & Loan Insurance Corp. (FSLIC), now have funds totalling $20 billion.

Now that banks and S&Ls can offer market rates on short-term insured deposits, many money-market managers—and even some municipal bond-issuing authorities—are shifting funds away from uninsured investments into federally insured accounts. This, plus last year's bank failures and the multi-billion-dollar bailout for thrifts, has put tremendous pressure on the federal insurance system.

To stem this rush to government insurance, some regulators—including FSLIC Chairman H. Brent Beesley—want to institute reforms that would discipline the system. One proposal is to charge graduated premiums for federal insurance, based on an institution's financial soundness, to replace the present practice of charging all institutions the same rate without regard to their condition. Predictably, some institutions fear a system that would rank them on the basis of quality. Not only has guaranteed insurance stimulated a rush to federally insured deposits; it has also over the years promoted unsound policies among banks and S&Ls. Witness last year's Penn Square fiasco (see "How Not to Ensure Bank Failures," Trends, Nov. 1982).

In contrast to the run on federal insurance, however, some investment firms are turning to private deposit insurance to compete with banks' and S&Ls' federally-insured funds. Vanguard Group, for one, has approached St. Paul Fire & Marine Insurance Co. to insure one of its mutual funds up to $500 million. The plan must get approval from the Securities and Exchange Commission before shares can be sold. It is also reported that Travelers Corp. is considering an insured-fund offering.

Unlike deposits with federal insurance, which limits liability to $100,000 an account, Vanguard's fund would have no such limit per account. And while the investor's average administrative cost for an uninsured money-market account in 1982 was about 0.72 percent of the investment amount, Vanguard expects the cost on its insured fund to be between 0.75 and 0.80 percent.

The Dangers of Phoney Privatization

Rome wasn't built in a day, and it takes more than an afternoon to privatize sensibly a government-owned utility. The British, who are debating the nuts and bolts of privatizing their nationwide telephone system, are learning this first-hand.

The Thatcher government is committed to selling British Telecom (BT) to private investors, doing away with its monopoly status, and licensing BT to operate under a newly created Office of Telecommunications. But BT is angling for a few little monopoly-like perks here and there that are even beyond the wildest dreams of the still-mighty Bell system here.

For example, while Americans have been able for some time to buy and sell their own telephones independent of Bell, BT insists that it be allowed to provide "the first telephone" in every home. If a private firm wants to manufacture and sell telephone equipment in Britain, as has been common in the United States for years, it must submit the equipment to BT, its biggest rival, for approval and pay them 30,000 pounds just to examine it. (According to the *Economist*, a British official has been trying to explain to a small company called Thames Valley Communications why it should fork over that huge sum of money for BT to look at, and possibly reject, its communications equipment.) And BT is scheduled to provide interconnection for its competitors in network services and cellular radio at "appropriate terms"—and BT itself gets to decide what "appropriate

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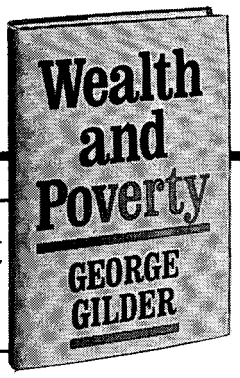

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terms" are. No wonder the *Economist* fears that "a liberated British Telecom will turn out to be an even more powerful monopoly than it is today."

But there are solutions. In February, Birmingham University Prof. Stephen Littlechild published a report on BT privatization that has fortunately won favor with Technology Minister Kenneth Baker. Littlechild, an economist of the free-market "Austrian" school, maintains that privatization of BT is not enough. For privatization to work, he suggests that the government should strip BT of its special privileges and pave the way for a competitive market in telecommunications.

To this end, Littlechild proposes doing away with BT's right to supply the first telephone on any premises; abolishing the BT monopoly on the maintenance of call-routing equipment, such as small company and office switchboards; permitting companies to share private telephone networks; and permitting anybody who rents BT telephone circuits to be able to resell them.

The head of BT, a wily operator named George Jefferson, may be able to circumvent the pressure for a truly competitive private market in telecommunications. On the other hand, maybe Littlechild and other advocates of competition will win out in the end. It's a battle worth watching.

MEMO TO: Bob Poole
SUBJECT: REASON'S 15TH ANNIVERSARY
FROM: Jim & Maureen Lance

OBSERVATION: Everything we would like to say will not fit onto this page. Therefore, we have chosen certain key words from our thoughts.

ESSENTIAL: As one of the few clear voices in today's media muddle, *REASON* is certainly essential.

VITAL: *REASON* is a vital observer of politicians and government.

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There are more words, Bob, but we would like to add just two:

WELL DONE!

PART OF THE RIGHT SEES PART OF THE LIGHT

Twenty years ago Milton Friedman wrote in *Capitalism and Freedom*: "The term conservatism has come to cover so wide a range of views, and views so incompatible with one another, that we shall no doubt see the growth of hyphenated designations, such as libertarian-conservative and aristocratic-conservative." Friedman's prediction may be coming true.

In February, a handful of influential conservatives including Terry Dolan of the National Conservative Political Action Committee; Reps. Ron Paul (R-Tex.) and Mickey Edwards (R-Okla.); pollster Arthur Finkelstein; Alan Gottlieb of the Citizens Committee for the Right to Bear Arms; and investment banker Ricky Greenfield drafted a statement of principles as the first step toward formation of the "Freedom Conservatives of America." Although it's consistent with mainstream conservative thinking on foreign and defense policy, the statement includes interesting deviations from beliefs cherished by the New Right.

For instance, it declares that "genuine conservatives must oppose those self-styled conservatives who would use government power to legislate morality"—a thinly veiled reference to groups such as the Moral Majority and Christian Voice with whom some of the statement's drafters have been closely allied in the past. And in a section on economic policy, it opposes "bailing out multi-billion dollar corporations...at the expense of the average taxpayer."

At this writing, it is unclear what activities the Freedom Conservatives of America will undertake, although there is discussion of a monthly newsletter, a book with individual chapters written by its prominent members, and campaigns for issue-oriented election referenda. In any event, it is a positive sign that some conservatives of this stature are moving publicly toward a more consistent regard for free minds and free markets.

GETTING LAND SALES OUT OF THE RUT

Of all the land in the United States, nearly one-third of it—742 million acres—is in the hands of the federal government. Through its Asset Management Program (AMP), the Reagan administration plans to sell some of this land to private owners, with the proceeds going to help retire the national debt. For fiscal year 1983, AMP was designated to raise $1.3 billion from "surplus" land sales. Thus far, however, the program has raised nearly nothing.

Neither the National Forest Service nor the Bureau of Land Management—which together administer almost 80 percent of all federal lands—has yet sold a single acre. And the General Services Administration (GSA), which administers a variety of federal properties, has donated assets—to state and local governments—of greater value than what it has raised through sales.

Moreover, the land-sales program has run into various obstacles. Recently, for example, the GSA had to back off from a proposed sale in Rhode Island because of opposition from citizens and politicians.

Part of the opposition to federal land sales is due to a lack of objective criteria by which land can be designated as "surplus." Johns Hopkins economist Steve Hanke, who has written extensively on privatizing public lands (see "Privatize Those Lands!" REASON, Mar. 1982 and "Grazing for Dollars," July 1982), recently proposed a solution to this problem in the Heritage Foundation's *Agenda '83*. "All lands subject to review [under AMP] that do not yield a real rate of return of 10 percent in public ownership should be classified as surplus and privatized," writes Hanke. He chose 10 percent "because it reflects the real return before taxes on private sector investments."

To ensure that actual market values are used to calculate returns on public lands—instead of biased, bureaucratic appraisals—Hanke recommends that land values be determined through good-faith offers from the public: the highest bid on a parcel of land would be its value. This system, says Hanke, should determine the sale price of federal land as well.

One aspect of private claims to public lands—the ownership of water resources on federal rangelands—has been gaining some clarity. For the past year, the Bureau of Land Management, which administers 170 million acres of grazing land in the West, has allowed both private individuals and state governments to file for title to artificial ponds and developed wells on federal arid grazing land. The new policy represents a break with long-standing doctrine that gave the federal government full claim to all water on public land.

OSHA REINED, SAFETY GROWS

"You don't hear any OSHA jokes anymore," a former chairman of the Council of Economic Advisers, Murray Weidenbaum, told the *Washington Monthly*. A few years ago, there were quite a few of them around. The Occupational Safety and Health Administration was notorious for devising regulations, for example, governing toilet-seat shape and the safety hazards of cow manure.

Some 928 OSHA regulations were eliminated under the Carter administration—but under Reagan-appointed administrator Thorne Auchter, OSHA's powers and budget have been scaled back considerably more. The US Chamber of Commerce recently described the differences between Auchter's policies and the policies of his Carter-appointed predecessor, Eula Bingham. In contrast to the past, OSHA now stresses voluntary programs for employers, self-inspections, and record checks in lieu of inspections for those employers with good safety records.

Although defenders of OSHA's past policies have often claimed that the proper and most effective guardian of workplace safety is the government, statistics seriously undercut that contention. At the

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same time as OSHA's powers and budget have been pruned, measures of workplace safety have actually shown an improvement. The average number of workplace injuries per 200,000 work-hours in the United States declined from 9.2 in 1979, when Bingham was administrator, to 8.1 in 1981, when Auchter was administrator. The rate of injuries with lost work time declined from 4.2 to 3.7 per 200,000 work-hours in those same years and the rate of lost workdays from 66.2 to 60.4.

There's no question that workplace safety is an important issue for employees. But these figures show that the lives and health of American workers apparently do not depend on the budget allocations and enforcement policies of OSHA. In fact, not having to devote so much attention to such trivia as toilet seats may have freed employers to pay more attention to general safety.

IMPORT QUOTAS: A FINGER IN THE DIKE

American industry and labor both have long led the protectionist mania to limit imports into the United States. Business, of course, is worried that foreign competition will bring down prices; labor, that American jobs will be lost. Orderly marketing agreements (OMAs), by which a foreign country agrees to limit its exports to the United States, are one supposed way of stemming competition from abroad. But do OMAs really accomplish their protectionist goals?

Two University of Southern California economists—Victor Canto and Arthur Laffer—report in January's *Business Economics* that such import quotas do very little to retain jobs or even to support high prices for domestic manufacturers. The economists took the example of color TVs. After Japan captured 18 percent of the US market in 1976 by exporting 2.5 million color TVs to the United States, the US government persuaded the Japanese government to limit exports from Japan to 1.56 million sets annually for the next three years.

Though by 1978 sets imported from Japan fell to below the import quota, an immediate increase in imports from Taiwan and Korea nearly compensated for the decrease in imported Japanese color sets. So in 1980, OMAs with these countries too went into effect. Imports again appeared to abate.

Foreign companies, however, found that they could circumvent the restrictions by producing partially completed sets in the United States, exporting them for completion, then reimporting them for sale. Since the OMAs did not cover reimported TVs, a 5 percent tariff was simply attached to the added value of the sets.

Did the OMAs work? No, say the economists. Domestic jobs for producing color TVs declined by nearly 15 percent from 1977 to 1980, while color TV prices rose only slightly. The restrictions had "no major effect on color TV prices, employment, or output in the U.S.," conclude Canto and Laffer.

WILL LABOR MEND ITS WAYS?

Say you're a woman with a few young children, your husband doesn't earn quite enough to meet all the bills, and the only job skill you have is sewing. Because of the children, though, you either can't or don't want to leave home every day to work. So suppose you find out that a nearby clothing manufacturer has work for an embroiderer, and you realize it's something you could do in your own home and get paid for. Well, you could—but not without violating federal law.

In 1943, with the passage of the Fair Labor Standards Act, the federal government—agreeing with the views of organized labor—decided that working at home could be bad for you. Predatory employers might not pay you enough and your home could in effect turn into a sweat shop, worried the government. So it banned industrial homework in seven categories: knitted outerwear, women's apparel, jewelry, gloves and mittens, buttons and buckles, handkerchiefs, and embroideries. Then, in 1981, when the Department of Labor learned (via network TV reports) that Vermont workers who knit outerwear in their homes actually enjoy the arrangement—they find it convenient and well-paying enough—Labor lifted the long-lived ban on that category of homework, still leaving the bans on the other six categories.

In February, however, the Center on National Labor Policy filed a lawsuit against the Department of Labor, in behalf of 10 workers in Ripon, Wisconsin—who do embroidery work in their homes—and a manufacturer who uses the services of these workers. John Imbody, CNLP's public relations director, told REASON that while the suit is specifically aimed at lifting the ban on the category of "embroideries" it also contests the constitutionality of homework bans in general. Imbody reports that CNLP also is seeking new Labor Department hearings on the bans—a favorable outcome there might obviate a lawsuit.

But don't expect organized labor to sit around and do nothing about this possible threat to its power. In fact, says Imbody, in recent Labor Department hearings, AFL-CIO officials have suggested *extending* the homework bans to the field of electronics. With the potential for increased homework in this area and others—especially those where home computers can be used—unions are understandably nervous about losing their ability to organize workers and increase their power base.

MILESTONES

• *Inheritance tax passes away.* There will be little mourning among Illinois citizens for the state's recently repealed inheritance tax. In addition to burying an annual $100-million tax burden, the repeal will almost certainly draw investments into the state from neighboring states where inheritance taxes are alive and well.

• *Miracle on 43rd St.* The *New York Times*, in a February editorial entitled "Decontrol Gas, Unburden the Poor," endorsed Reagan administration plans to deregulate natural gas. Wrote the *Times*: "Most producers and consumers would benefit if all regulation ended."

• *Space express.* Federal Express, reports *Aviation Week & Space Technology*, is negotiating the purchase of a minority interest in Space Transportation Co., based in Princeton. SpaceTran, as the company is known, plans to launch commercial satellites.

• *Midwives fight back.* When two midwives in Nashville set up practice three years ago, they contracted with a doctor to provide medical backup in case of emergency—whereupon three hospitals denied them privileges and the doctor lost his malpractice insurance. The midwives have now sued the hospitals and the doctor's insurance company charging antitrust violations.

—ROBERT POOLE, JR., PAUL GORDON, AND ERIC MARTI

Towering Entrepreneurs

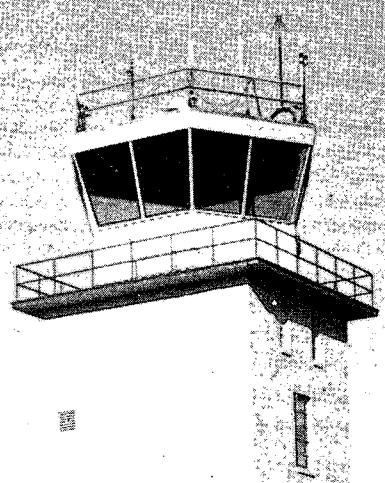
What happens when private firms run air traffic control towers?

BY JOHN DOHERTY

Air traffic controllers *Travis Pierson and Ron Driscoll are controlling traffic from the Smyrna, Tennessee, airport tower on a typically busy afternoon. Two student pilots are buzzing around the field doing practice touch-and-go landings. Control of a Learjet eight miles from the runway on an instrument flight rules (IFR) flight plan has just been handed to them from Nashville Approach Control. Two Army helicopters are lifting off from the parking ramp. The pilot of a twin-engine turboprop is complaining over ground control frequency about a problem with his IFR flight plan with Air Traffic Control (ATC).*

Reflecting their combined total of 45 years of experience, Driscoll and Pierson smoothly and efficiently coordinate the flow of traffic and solve the turbo-prop pilot's problem with a phone call—all in a day's work for controllers. But what is distinctive here is that they are not employees of the Federal Aviation Administration (FAA)—instead, they work for Barton ATC, Inc., a privately owned for-profit corporation that has specialized in air traffic control services since 1968.

As executive director *of Johnson County Airports near Olathe, Kansas, Joe Dennis is responsible for the county's Industrial and Executive airports. The two fields are similar in size, services provided, and amount of air traffic. However, the Industrial tower is operated by Midwest ATC, a private firm, while the Executive tower is*



FIFTEEN Years of REASON

Privately operated Air Traffic Control tower at Smyrna, Tennessee.

Photograph by John Doherty

operated by the FAA. Dennis says, "Give me the money the FAA is spending operating Executive's tower, and I'll operate both towers [using private contractors], do a better job, and have money left over."

And, indeed, the facts bear out Mr. Dennis's contention. Lawrence Fortier of the FAA's Air Traffic Service office says that the typical annual cost for operating and maintaining an FAA tower like Johnson County Executive is $294,108. In contrast, Midwest ATC operates and maintains the Industrial Airport tower for $90,000 per year.

MOST AIRPORTS are owned by state and local governments or by private firms or individuals. Air traffic control, however, is a service that has long been the province of the federal government, and the government does not provide a control tower at every airport. When determining whether a particular airport gets an FAA control tower, the agency considers the level of activity at that airport, the availability of funds, and how many FAA controllers are available. But the final decison is subject to political considerations as well, such as pressure for or against an installation and the benefit or cost to the FAA.

The FAA calls its minimal tower installation Level I. (There are also Levels II, III, and IV, determined mainly by the amount and character of traffic.) The agency owns 125 Level I towers. There are fields that meet FAA activity criteria and don't have towers, and there are fields that no longer meet FAA activity criteria but still have towers.

Having a control tower is an important asset to an airport operator. A pilot able to choose between airports with and without towers will invariably choose the airport with a tower. Sales of fuel and ancillary support services at the preferred airport are higher. Safety is enhanced, and the reduced threat of midair collision and wheels-up landing cuts insurance liability costs for both the airport operator and users. Because of safety and liability concerns, many corporate aircraft operators will not base their planes at a field without a tower.

A simmering political feud between airport operators and the FAA over which airports get what services reached a boiling point when the FAA began shutting down towers in the wake of a strike by the air traffic controllers union (PATCO) in August 1981. Eighty towers—most of them Level I—were closed indefinitely. Airport operators watched helplessly as pilots spurned their fields, corporate aircraft operators threatened to pull out their operations, and the incidence of

Guiding Flight

The nation's air traffic control (ATC) system consists of three kinds of facilities: control towers at airports, en route centers, and approach/departure control facilities. Controllers in airport towers direct traffic on the ground and in the airport traffic pattern, an area within about a five-mile radius of small airports. Controllers at en route centers provide navigation and traffic separation services to airplanes flying between airports. Controllers at approach/departure facilities provide the communications and control link between towers and en route centers.

Pilots may elect to use the ATC system on either IFR (instrument flight rules) or VFR (visual flight rules) flight plans. Pilots on VFR flights are responsible for providing their own separation from other airplanes, and they must remain well clear of clouds and fog. Pilots on IFR flight plans are under "positive control"—that is, they are constantly in contact with an ATC facility—and can fly through visibility-obscuring weather.

On a typical IFR flight, a pilot files a flight plan with the en route center in his area. Center approval of the flight plan is passed to the pilot by the tower a few minutes before he takes off. Shortly after his departure, he is directed to contact a departure controller who monitors and directs his progress until he is at the proper point to be switched over to the en route center. The center then monitors the flight and requires turns and altitude changes to insure that IFR airplanes maintain adequate separation. As the aircraft approaches its destination, control is passed from the center to the approach control, then to the local tower where the flight plan terminates.

VFR flights are largely informal affairs—in fact, some pilots flying VFR don't even bother filing flight plans. Except in the vicinity of airports with control towers, VFR pilots are not controlled. However, once in an airport traffic pattern, VFR pilots are bound by the instructions of the control tower.

Photograph by John Spink/Kansas City Times

Midwest ATC Services president Garry Havens visits the tower at Olathe, Kansas, operated by his firm. With him is controller Don Jenkins (left) and operations director Mark Jones (right).

near-collisions in midair escalated. At the time of this writing, 41 Level I towers remain closed, and the FAA has a list of 54 towers, 15 of which are still in operation, it considers potential candidates for closing permanently.

Because of the FAA's unwillingness or inability to provide tower service to all airports that want it, airport operators have sought out and, in at least one case, have assisted in the formation of private air traffic control (ATC) firms. At the time of this writing, seven firms are manning towers at 19 airports across the country, including 4 with FAA towers closed after the PATCO strike.

In order to get a first-hand look at the service being provided by these companies, I spent several days recently observing private air traffic controllers at work in towers in Smyrna, Tennessee; Olathe, Kansas; and Owensboro, Kentucky. An airlines pilot myself, I visited with officers and staff of the two largest ATC firms—Barton ATC, headquartered in Murfreesboro, Tennessee; and Midwest ATC, in Olathe—and I interviewed airport managers at 16 fields with privately operated towers. With that information in hand, I headed for Washington to find out which way and how strong the political winds for and against private ATC are blowing. While I was there, I talked to Senate staff members, FAA representatives, and officials of the American Association of Airport Executives.

I SPENT A MORNING getting to know Jim Kaiser, a salty old former FAA controller now working the Owensboro tower for ATC Services, Inc. ATC Services came into being in 1981 through the cooperative efforts of the Owensboro Airport manager; Texas Gas, an airport tenant and operator of a fleet of corporate aircraft; and the chief of the FAA's Southern Region ATC Division. When Owensboro's tower was closed after the PATCO strike, a group of local businesses headed by Texas Gas raised funds for operating it through a "Save the Tower Committee." The airport's manager encouraged Tom Goetz, a retired FAA tower chief, to form an ATC company and negotiated with the FAA for a $1-per-year lease of the tower.

During lulls in the action, Kaiser recounted his experience with the FAA and his subsequent hiring by ATC Services. He had been medically retired because of a heart problem but after regaining his health was told by the FAA that in his mid-50s he was "too old" to go back to work. He enjoys his profession and seized on the opportunity to return to the tower when Tom Goetz called on him to help get a new ATC company started.

Even though no longer with the FAA, Goetz administered Kaiser's "area checkout," a practical exam required by the FAA for controllers moving into a new facility. (The fact that the FAA allowed a civilian to perform a "certification"-like function indicates a willingness and ability of the FAA, at least on the regional level, to adapt rapidly to a privatized ATC environment.)

I watched and listened as Jim Kaiser found a nervous and apparently disoriented student pilot approaching the airport from the opposite direction he'd reported. Without comment, he cleared the pilot to land. The pilot of a corporate jet asked over ground control frequency for a recommendation among three available restaurants on the field—a recommendation Kaiser declined to make, explaining to me that since base operators on the field live or die by the amount of transient business they get, they all listen in to make sure that his comments over the air are impartial. Like an old-time cop walking the beat, Kaiser was there to direct traffic and protect life and property, but because of his close association with members of the airport community, his actions were tempered by commonsense and good will.

In my conversations with airport managers who have contracted with private ATC firms, I found that the average cost for operating and, in most cases, maintaining privately operated Level I towers is $96,000 per year compared to an average FAA cost of $294,000 per year. The same firms that have provided ATC services have constructed and equipped several towers varying in cost from $130,000 to $450,000. By comparison, the FAA estimates that in 1981 its average cost to construct and equip a Level I tower was $1.4 million.

Based on my personal observations of controllers at work, the comments of airport managers, and an examination of safety records compiled by ATC firms and submitted to the FAA, the private companies are providing safe and professional service—with a plus. Unlike their PATCO-era counterparts, the privately employed controllers are friendly and courteous, and the firms are responsive to the wishes of the local airport authorities who have contracted their services.

HOW CAN THESE FIRMS provide this level of service so much more cheaply than the FAA? Partly because when the FAA opens a tower, it assumes a "cost is no object" approach. The facilities are what one non-FAA controller called "plush." He had opened the Hobbs, New Mexico, tower after it was closed because of the PATCO strike. He found everything there just as the FAA had left it, and he told me, "They had things there I'd never seen, even in 20 years of controlling traffic in the military, and I doubt if they ever used much of it."

While looking at the FAA's price tag of $1.4 million for a Level I tower, one should remember that a tower is nothing more than a structure that gets controllers high enough to have an unobstructed view of runways and taxiways and provides facilities for communicating with airplanes and monitoring weather instruments and navigation aids. A typical tower is a concrete block structure 50 feet high with a glass-sided cab on top.

Because of ever-present cost considerations, private firms often take advantage of existing structures such as airplane hangars and passenger terminals to support tower cabs, rather than building entirely new structures. In other cases, airports have towers that have been abandoned by former military tenants; while the FAA turns its nose up at such towers (it seldom uses them, and then only on an interim basis until it can build its own facility), the structures are put to good use by private operators.

There are yet other instances where existing structures haven't been adequate, but visibility considerations have made it feasible for private firms to put tower cabs on top of trailer houses. Where the situation has warranted an en-

tirely new tower, as in Mesa, Arizona, private firms have constructed full-scale towers rivaling their FAA counterparts in structure and facility, and they have done it for about half of what the FAA spends for similar installations.

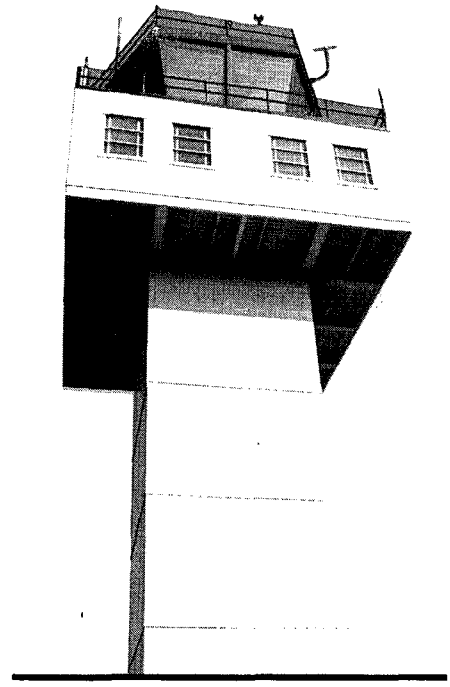
(Incidentally, one advantage of privately constructed towers is that ATC firms waste no time building them. Construction of tower cabs on top of trailer houses is naturally less time-consuming than building a full-scale tower, but even in Mesa, Barton ATC took only seven days to install a tower—a pedestal topped by a prefabricated cab. It was fully operational about 30 days after Barton had signed the contract with the airport.)

The cost of tower installation has just begun with construction. Amenities such as tower elevators and kitchens are eschewed by cost-conscious private firms but are standard equipment in FAA towers. FAA radio equipment is complex, built to high specifications, and designed to last many years—which sounds good. In practice, however, the radios are expensive to buy and maintain and become obsolete before they are worn out. In contrast, private firms rely on simple, inexpensive radios that are easy to repair.

And when the FAA makes a mistake in purchasing equipment, it's a big one. According to a number of controllers I spoke to, in the late 1970s the FAA purchased thousands of radio headsets that, it was discovered once they were in use, had the annoying habit of shocking the controllers at random intervals—a feature with intriguing potential for psychological conditioning. The entire lot had to be junked. Officials at the FAA do not deny the incident.

The FAA keeps a full-time maintenance person at almost all FAA towers, puttering around waiting for a radio to break down. By contrast, private firms operating more than one tower have only one central maintenance site. When a radio fails at a Barton ATC tower, controllers rely on back-up systems while awaiting a replacement set. At the same time, they send the malfunctioning unit to their company headquarters for repair. Barton ATC's maintenance staff consists of one technician who keeps radios going in 6 or 7 towers—a job that would require 6 or 7 technicians if the FAA were doing it. Barton has been successfully using this procedure since 1979.

Another area of major savings is in controller payroll. The experience at Hobbs, New Mexico, provides a good comparison. The FAA was operating the tower with seven controllers, but a private contractor staffed the tower with three controllers. Also, a privately employed controller's salary was about



The tower in Owensboro, Kentucky, is one of only two contracted out by the FAA.

40 percent less than what an FAA controller was paid.

I asked several controllers how they felt about making less than their FAA counterparts. Most of them were former military controllers who were too old by FAA standards to be hired when they left the service. The universal sentiment among them was that they liked being controllers, and this was the best opportunity for them to practice their trade. They also sensed that there was great potential for expansion of private ATC, and they expect to benefit with their companies from that expansion.

One of the most significant differences between private ATC firms and the FAA is in labor-management relations. Prior to the PATCO strike, relations at the FAA between controllers and management were notoriously bad and morale was low. FAA officials attributed these problems to PATCO militancy—yet more than a year after the controllers union was decertified, the *Wall Street Journal* reported that "relations between air-traffic controllers and their bosses are slipping back toward the open hostility that preceded [the 1981] strike." And a government-appointed task force concluded that "heavy-handed supervision" that was previously held in check by PATCO is rampant. One commission member wrote, "Working controllers are becoming increasingly negative [toward FAA management] as the months roll along."

In contrast, relations between controllers and their employers at private firms are far more cordial. To some extent, this is because ATC firms are relatively small, and most of the firms' officers are former controllers themselves and intimately acquainted with the demands of the occupation. This healthier relationship has resulted in cost savings. Controllers at private firms don't mind taking on tasks like office work, doing weather observations, and giving classroom instruction—which FAA controllers consider outside their "job description."

Because they aren't hindered by a large bureaucracy and political considerations, private firms are flexible. Barton ATC, for example, was confronted with a high cost of instrument consoles for housing communication and weather devices in their towers. So they began constructing their own in a back room.

At first glance the disparity between the cost of private versus government air traffic control towers seems incredible, but there is nothing magical about the savings private firms make possible. If a firm doesn't control costs and meet contractual obligations as well as or better than competing firms, it goes out of business. The FAA faces no such constraints. As Frank Carlucci, described by *Federal Times* as one of the "country's most prominent civil servants," said at the end of his 26-year career in government: "We've got a serious problem in government with inducements. Nobody gets any rewards for saving money. Generally if you save money in government, OMB or somebody else comes along and takes it away. Your job description [and hence salary] is based on the number of people who work for you, not on the amount of money you save, not on your performance."

While talking to airport managers who have hired private firms to operate their towers, I found enthusiastic approval of the ATC services received, especially among those who had previously had FAA-operated towers. In particular, managers cited their satisfaction with increasing traffic levels and the fact that they were "in charge" of tower operation via the contractual relationship. Owensboro's manager, John Games, told me that administration of his contract with ATC Services takes his office less than one hour per month.

The record of private ATC firms indicates a high degree of competence. The FAA issues "violations" when it notes transgressions of Federal Air Regulations. One of the two largest ATC companies, Midwest, has never had a controller violation in its four years of operation; the other, Barton, has had one controller violation in 14 years of operation—a virtually flawless record.

Photographs by John Doherty

SINCE PRIVATE COMPANIES are providing excellent service at one-third the cost of similar FAA service, why isn't the use of private contractors more widespread, especially with the FAA planning to shrink further the number of FAA towers? The answer lies in the way towers are funded.

There are actually two sources of funding for the FAA. The first is general federal revenue, a direct and unadorned taxpayer subsidy of the system. The second source is a scheme of so-called user taxes on aviation fuel, airline tickets, and air freight. These user taxes, however, are a far cry from authentic user fees.

As Robert Poole pointed out in a Heritage Foundation study, the user taxes are not proportional to the true cost of ATC service. Guiding a Learjet carrying two people between New York and Chicago costs just as much in the way of air controller personnel and equipment as guiding a huge DC-10 airliner, yet the Learjet pays only a fraction of what the DC-10 must pay. Also, in a system with limited resources, the Learjet is displacing other aircraft from the segment of space and time that it occupies, thus imposing additional costs on DC-10s, 727s, and other potential users of that segment. A Transportation Department analysis of airport and airway costs found that airlines were covering 95 percent of their allocated costs via the user taxes, but general aviation was covering less than 20 percent of its allocated costs.

This arrangement distorts the market in other ways, as well. Because the FAA is virtually guaranteed its funds from general revenue and user taxes, it need not worry about customer dissatisfaction. It's no surprise that powerful aviation interests have lobbied hard to preserve a system that shields them from the true cost of the services they use.

Currently, airport operators with private contractors are funding their towers predominantly with local tax revenues, but also with donated funds, contracts with airport users, or a combination of the above. With two exceptions, the FAA is not funding any private contract tower. So in a sense, most airports with private contractors are paying for ATC service twice—once in the form of aviation taxes and again with local revenues and contributions. Small wonder that the airport operators prefer the "free" FAA towers. And meanwhile, the taxpayer is stuck with the hugely inflated bill.

Right now an opportunity exists to remedy this situation wherein the most expensive option is the one most likely to be chosen. Responding to constituent complaints about tower closings in his home state of New Mexico, Sen. Pete Domenici (R), in consultation with the FAA's Air Traffic and Legal offices, wrote legislation amending the Airport and Airway Improvement Act of 1982 to allow federal funds to be spent for the contract operation of ATC facilities. The legislation also ensures that the government not be liable for damages resulting from actions of private firms, thus obviating one of the FAA's major objections to the contract concept.

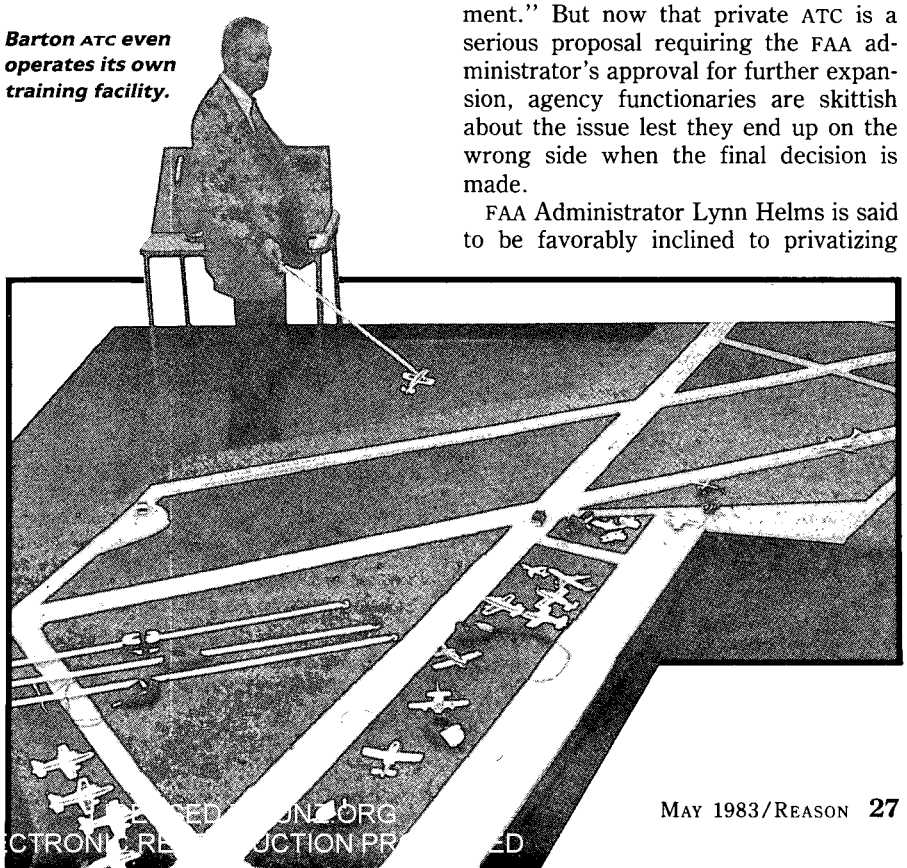
The amendment received widespread Senate approval. Sen. Robert Packwood (R-Ore.), who chairs the Senate Commerce Committee, said that provisions of the Domenici amendment would "result in an overall improvement of the air traffic control system. With the ability of local governments to contract ATC services from the private sector, newly trained FAA controllers can be assigned to the larger airports presently understaffed since [the PATCO strike]. Current experience with contracted ATC services indicates that cost to staff control towers is approximately one-half the cost associated with FAA controller staffing." By a rather tortuous process that only a parliamentarian could love, the Domenici amendment became law as part of the inaptly named Tax Equity and Fiscal Responsibility Act of 1982.

To date, the only privately operated towers the FAA has chosen to grant funds to are in Farmington, New Mexico, and, as of February, Owensboro, Kentucky. R. J. Van Vuren, director of the FAA's Air Traffic Service, told the American Association of Airport Executives last December: "The use of contracting authority will not be expanded to other facilities until the [Farmington] pilot program is carefully evaluated and a national policy is developed, coordinated, and approved by the Administrator of the FAA. We plan to complete these actions by the end of 1983." The FAA relented for Owensboro only because of pressure from Sen. Wendell Ford (D-Ky.).

In fact, there is nothing to evaluate. FAA towers closed after the PATCO strike in Hobbs, Owensboro, and Enid, Oklahoma, as well as in Farmington, have been in operation for over a year. Other non-FAA towers have been operated by contractors for as many as 15 years now. The FAA may have some legitimate problems determining eligibility, but at the very least, they could permit the immediate contract operation of towers still closed as a result of the PATCO strike. One can only conclude that the FAA is buying time with its "pilot program," fearing that the prospect of private ATC is a threat to its ATC empire.

Which is not to say there is no support within the FAA for private contracting. One FAA staff member confided to me that the agency had been considering private contract operation of towers well before Senator Domenici began agitating for privatization legislation. And C. R. Melugin, director of the FAA's Southwest Region, was quoted in the *Wall Street Journal* as saying, "What's going on in Farmington is a good demonstration of why air-traffic control should be a business, and not the function of government." But now that private ATC is a serious proposal requiring the FAA administrator's approval for further expansion, agency functionaries are skittish about the issue lest they end up on the wrong side when the final decision is made.

FAA Administrator Lynn Helms is said to be favorably inclined to privatizing



Barton ATC even operates its own training facility.

some FAA functions, but he is a political appointee, and his tenure can't be expected to last much longer than Ronald Reagan's. Those middle- and upper-echelon FAA officials who oppose any move toward private ATC will still be around long after Helms is gone. FAA bureaucrats do not advance by saving the taxpayers' money; they advance by expanding the FAA's sphere of power. And if they were to adopt the notion of private ATC, they would be reducing their control of tax revenue, decreasing the size of their departments, and tacitly admitting that their management of ATC is an economic failure. Jack Barker of the FAA Southern Region told me, "There are no plans to hand any FAA towers over to private industry."

AND IF THEY SHOULD, where would it end? There is no legal barrier to private operation of *any* FAA ATC facility, and there are several serious proposals for privatizing the entire ATC system, not just Level I towers (see sidebar, below). The next logical step would be to move private contractors into the FAA's 157 Level II towers, which I estimate would save $35 million per year.

FAA commitment to the status quo has become so blatant that Edward Tripp of the Aircraft Owners and Pilots Association suggested in a magazine article that a proposed review of ATC improvements "should not be conducted or led by the FAA or any of its traditional technical advisers. The commitments to entrenched ideas and prejudices are too great."

If the FAA would expand contract ATC to just those 41 towers still closed as a result of the PATCO strike, the savings to the taxpayers in the first year would be $10 million over the cost of their being reopened and run by the FAA. If all Level I towers were contracted out, the initial annual savings would be $25 million. In addition to cost savings, there would be the benefit of greater safety and associated savings in insurance liability and avoided accidents. And the FAA could send controllers now in Level I towers to en route ATC facilities, many of which are still understaffed as a result of the PATCO strike.

A tool that could be very useful in a battle for privatizing ATC is a requirement of the Office of Management and Budget that federal agencies must contract services that aren't "inherent" government functions. ATC can hardly be considered an "inherent" function of government, since originally it wasn't even a government function at all. The first ATC service and many of the early technological innovations in ATC were provided by Aeronautical Radio, Inc. (ARINC), a not-for-profit company set up in 1929 with airlines as its stockholders.

The OMB also requires that if actual bids show a savings to the government of 10-25 percent, then contracts must be awarded. Private ATC has demonstrated that far greater savings than that are likely. If the FAA were to follow the OMB directive, we can assume that all Level I towers would very likely be contracted out and Level II towers would follow in short order.

The Air Force is currently following the OMB procedure for letting bids, and already, two of the 80 towers under the jurisdiction of the Air Force Communications Command have been contracted out. A spokesman for Air Force contracting at Rome Air Force Base in New York told me that present plans are to increase rapidly the number of contract towers.

Critics of the notion of privately operated towers raise some objections, of course. Primary among these is the FAA's assertion that its "responsibility for ensuring air safety" prevents it from proceeding rapidly with privatization. Actually, the opposite is the case: safety is being seriously degraded by the FAA's resistance. There are hundreds of busy airports that could have the additional safety provided by a control tower if funds available could be stretched by utilizing private controllers. For in-

Private Control?

The possibilities for a vastly improved and less costly air traffic control system are great. Air traffic control is essentially the processing and transmission of information, and we are in the midst of a revolution in information handling—a revolution that the Federal Aviation Administration is apparently passing up.

One of the most recent of many proposals for radically improved ATC comes from Gerard K. O'Neill, a professor of physics at Princeton University, author of *The High Frontier: Human Colonies in Space*, and an experienced amateur pilot. He details a system relying on state-of-the-art microprocessors, computers, and satellites and able to pinpoint airplanes within inches. The information thus derived can be used for on-board en route navigation, instrument approaches, collision avoidance, weather display, and traffic control.

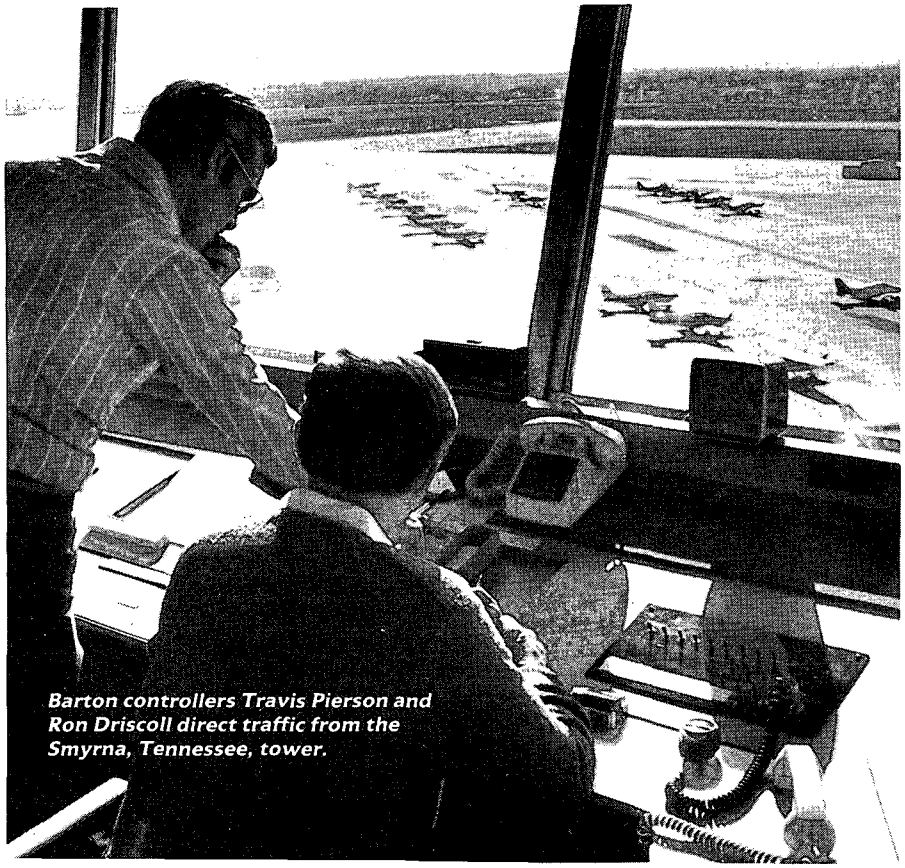
The system proposed by O'Neill would cost a fraction of what is currently spent for ATC. A single airborne installation costing $1,500 would replace $65,000 worth of instruments and would give more accurate performance. Installation of main computers and positioning of satellites could be done at low cost relative to FAA plans. Another virtue: the proposal is uniquely suited to true user-fee financing.

O'Neill has presented his proposal directly to FAA Administrator Helms and has satisfactorily responded to objections raised by FAA engineers, but the FAA is not interested. Recognizing this, O'Neill suggests that ATC functions be turned over to a private corporation modeled after ARINC—the not-for-profit corporation that originated ATC services and is now providing communication services for the airlines—or to Comsat.

REASON's Robert Poole recently proposed in a study for the Heritage Foundation that ATC functions be turned over to a not-for-profit corporation owned by airspace users. The corporation would in turn contract out operation of ATC facilities to for-profit firms. An ATC system structured in this way, subject to market pressures as a result of direct user fees, would be quick to exploit available technology, perhaps in the way suggested by O'Neill, to reduce costs and increase efficiency.

Another plan for privatizing air traffic control was submitted to the FAA last year by the Sunlight Corporation, a communications and financial services firm in Washington that has done projects for the Congressional Office of Technology Assessment, NASA, and other agencies. Sunlight proposed the creation of a private corporation that would "assume responsibility for operational management of the air traffic control system" while the FAA would set policy and see that the corporation's contractual obligations were met.

The outcome of the debate over private operation of control towers may well be a preview of the future of ATC. Will the FAA be able to cling to the creaking system it now operates, or will the ATC of the future be a vastly safer, cheaper, and more efficient system employing modern technology, owned and operated by private firms, and paid for by its users?



Barton controllers Travis Pierson and Ron Driscoll direct traffic from the Smyrna, Tennessee, tower.

stance, Garry Havens of Midwest ATC estimates that his controllers have prevented 20 to 30 wheels-up landings since his company began operations in 1978 at six fields that didn't qualify for FAA towers.

There is another, more subtle influence concerning controllers and safety, and that is controller attitude. *Air Transport World* noted recently that prior to the PATCO strike, "controllers vented their anger and frustration by issuing extra vectors, holding airplanes longer than necessary, and generally slowing and interfering with the ATC system"—scarcely a prescription for safety. The FAA is in the last stages of a post-PATCO honeymoon with its controllers, and there are rumblings about a new controller union. FAA controllers are in a position to demand monopoly wages, and their demands will be backed up with the threat of the type of actions noted above. The more widespread the use of private ATC firms, the less potent will be the threats of this kind.

Many airport managers I talked to who now patronize private ATC firms are still stinging from the financial and political problems that arose during their years with FAA controllers. But these managers are universal in their praise of controllers with private ATC firms. As Duard Spleth, manager of the Enid, Oklahoma, airport told me: "The attitude [of the private controllers] is that if we don't do a good job, we won't be here next year. Try telling that to a Fed."

The FAA has also raised concerns about liability in case of an accident involving private ATC. In fact, private ATC firms are required by their contracts with airports to insure against liability stemming from their "wrongful acts or omissions." Typically, contractors are required to carry $10 million of liability insurance. (This insurance covers only controller error. Insurance coverage for airport owners, aircraft operators, etc., is a separate issue.) Additional insurance is relatively inexpensive. According to Mr. Havens of Midwest ATC, an additional $10 million of liability insurance could be purchased for less than $10,000 per year if it were deemed necessary.

In the past, only Lloyd's of London insured private ATC firms, but as private ATC has expanded and experience has shown that it is a relatively low-risk operation, at least two more insurers—Marine Underwriters and Fairfax Underwriters—have entered the field, and the costs of premiums have gone down.

Typical of the innovative approach of an aggressive young company is a Midwest ATC proposal for further liability insurance savings. As outlined by Havens, the proposal would involve creation of a nonprofit corporation owned by airports. Each member airport would make annual contributions based on its activity level. Based on a five-cent landing fee at 125 airports and assuming a rate of return of 10 percent, the fund would become self-sustaining in six to seven years, and liability insurance would be supplemented and eventually replaced by the fund depending on experience level. Conceivably, member airports could eventually draw a dividend from the fund.

Opponents of privatization question where controllers would come from in the event of a rapid expansion of private ATC. Actually, there is available for employment a pool of thousands of FAA-certified controllers—retired or former military controllers or former FAA controllers.

There are also several non-FAA schools training controllers now. Barton ATC operates a completely private, for-profit, School of Aviation Technology in Murfreesboro, Tennessee, that trains controllers and weather observers. Graduates of the school gain practical experience working under veteran controllers in Barton-operated towers, and they have met the requirement of accredited classroom instruction necessary for FAA certification. Catonsville Community College near Baltimore and Community College of Beaver County in Pennsylvania both have programs leading to FAA controller certification. Several universities, such as Embry-Riddle in Florida and the University of Oklahoma at Norman, have major schools of aviation that could easily be expanded to provide full controller certification courses of study if the demand for non-FAA trained controllers warranted. And the question is unavoidable—why should taxpayers bear the cost of training some controllers as well as paying them an average trainee salary of $15,000 per year while other prospective controllers are willing to pay for their own training?

The situation is simple despite FAA obfuscation and foot-dragging. Private ATC is cheap, safe, efficient, and capable of expanding rapidly into a hundred or more airports. FAA ATC, because the FAA is a political beast, is expensive and inefficient. Instead of expanding service to small airports, the FAA is shrinking service. Indeed, for improved efficiency, greater safety, and reduced cost of air traffic control, the choice is exceptionally clear: private ATC towers is the way to fly. ◻

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Fifteen YEARS OF Reason

Capitalism delivers the goods . . . but is capitalism good?

Profits with

By Tibor R. Machan

Capitalism is largely held in contempt in today's moral climate. A culture's moral climate is the prominent opinion about what sort of conduct is proper and improper. Those who accept and seem to practice it need never explain their conduct. Its rejection in theory and practice, however, calls forth rebuke, censure, and condemnation by the media, politicians, religious leaders, and others who dominate forums of opinion in society.

In earlier eras, too, aspects of capitalism were widely condemned by spokesmen of the times. The system continued to function anyway, mainly because of its undeniable productivity. Today, however, the criticism of capitalism has reached a crescendo, even though what capitalism ever really existed has virtually vanished.

Does capitalism fit into our culture's moral climate? If not, is this climate misguided and unhealthy, or should capitalism be abandoned for some other system? One thing is certain: it is impossible for any social, economic, or political system to flourish in a climate morally opposed to that system.

Two main currents dominate our moral climate. One is altruism—the belief that everyone's proper purpose in life is to serve other people, to promote others' welfare, or at least to provide for those who are in need. The other is pragmatism, which in this arena translates into a belief that morality is a mythical notion and that only a scientific or technological outlook makes sense today.

Altruism is usually contrasted with egoism. The virtues of self-sacrifice, of giving and not taking, of humility instead of ambition, are stressed by those who favor altruism. And egoism, for them, involves callousness toward others, inconsiderateness, crass self-gratification, and no concern for principles and ideals.

More generously understood, though, egoism *is* informed by principle and actually involves a positive goal—the enhancement of one's own human life. This isn't achieved by simple-minded pleasure seeking or by running roughshod over others, however, but by bettering oneself as a rational being, by fostering mutually beneficial relations with others, and by securing political principles for one's society that protect the rights of everyone.

Altruism is the far more prominent view. This may be obscured by the occasional popularity of doctrines like the *Playboy* philosophy, the hedonism of the "me decade," and the sales of such self-help books as Robert Ringer's *Looking Out for Number 1* and Wayne Dwyer's *Pulling Your Own Strings.* In fact, however, these phenomena are hardly prominent and, when they threaten to become so, are frowned upon. From pulpit, pundits, and politicians, the prevailing message is altruism, with its call for self-sacrifice, for tightening our belts and reducing our standard of living so the needy and the poor of the world can benefit.

In politics, altruism leads to social-welfare measures, even at the expense of the liberty of many to better their own circumstances. At times, of course, there arises a political sentiment that counters altruism. When Californians passed Proposition 13, which rolled back property taxes and therefore government spending in the state, opponents of the measure found it selfishly motivated. Many insisted that it gave evidence of an abhorrent "me first" mentality.

Yet, defenders of Proposition 13 did not counter by declaring it quite all right to think of one's own prosperity, to assert one's right to a decent life. Instead, they spoke of waste and abuses in government. This testified eloquently to the prominence of altruism. Even when people do act for their self-interest, they deny it in public, searching for explanations that make it appear that this was not their intention.

Ideologically, those who have been called humanitarians or collectivists—who have favored sharing the wealth or redistributing the fruits of work—have tended to be altruists. Those, however, stressing individuals' liberty and the right of anyone to succeed by his or her own effort have tended to favor individualism or egoism as their ethical position. Two examples illustrate the division quite clearly.

Karl Marx in his earliest days, before he had worked out anything like a total system of thought, was an ethical altruist. In an essay entitled "On the Jewish Question," Marx wrote:

> *The actual individual man must take the abstract citizen back into himself and, as an individual man in his empirical life, in his individual work and individual relationships, become a species-being; man must recognize his own forces as social forces, organize them and thus no longer separate social forces from himself in the form of political forces. Only when this has been achieved will human emancipation be completed.*

People, Marx was arguing, should cast off individuality and organize their lives for the benefit of the whole—which amounts to living and working for the benefit of others.

The point comes through even more clearly in Marx's attack on the doctrine of individual rights, especially property rights:

> *The right of man to freedom is not based on the union of man with man, but on the separation of man from man. . . . The right of man to property is the right to enjoy his possessions and dispose of the same arbitrarily, without regard for other men, independently of society, the right of selfishness. . . . It leads man to see in other men not the realization but the limitation of his own freedom.*

Marx *complained* that the right to freedom and to property make ample room for individuality, for personal autonomy. He was right on target; these rights do indeed permit a sphere of privacy wherein the individual is not subject to others' claims

Honor

and demands. But Marx found this unsuited to the goals he recommended for human beings—their collective emancipation, the development of the human species as a whole.

In contrast to the connection between altruism and collectivism, there is the link between egoism and individualism. Ayn Rand, the novelist-philosopher who gave capitalism and the free society much support during the last few decades, was an ethical egoist. In one of her essays, "What Is Capitalism?" she wrote:

> *The recognition of individual rights implies the recognition of the fact that the good is . . . a value pertaining to . . . the lives of individual human beings (note the right to the pursuit of happiness). It implies that the good cannot be divorced from beneficiaries, that men are not to be regarded as interchangeable, and that no man or tribe may attempt to achieve the good of some at the price of the immolation of others.*

Self-assertion and self-interest are commendable, Rand argued. And the free society, she insisted, with its capitalist economic system, is the best means by which individuals' interests may be pursued. Altruism, with its subordination of the individual to the whole, is explicitly rejected, especially when imposed, as most often urged, by force of law.

With capitalism and altruism so diametrically opposed, it is no small matter whether the case for altruism is sound. The question is not whether helpfulness, considerateness, generosity, and the like are to be counted among the human virtues. The question is whether we have a primary moral duty to devote ourselves to bettering the lot of others.

No philosophical system has successfully defended altruism as an ethical position. No one has demonstrated that we should indeed live for the sake of others. And it is not for neglecting to try.

Why is the doctrine insupportable? Altruism, Nietzsche noted, is the master-slave morality. It demands that humanity split itself into camps, one preaching and reaping the benefits of altruism, the other abiding by the doctrine and assuming the position of servitude. But even if Nietzsche's forthright polemics are rejected, we find that on logical grounds alone altruism collapses. Why on earth should each person live for others' sakes if, as it surely follows in this doctrine, all these others must do the same, ad infinitum? Who is the ultimate beneficiary of this kind of conduct—who deserves, finally, to be honored with a decent life of his or her own? Some abstraction called "humanity" or "the species" or "society" is frequently proposed, but what are all these if not the individual members they comprise? Why, then, should all these individuals be orienting their lives to serve others? Why don't we simply encourage all people to do well in their *own* lives, thereby cutting out the "middleman"?

The most common answer to this line of questioning is that not everyone will fare equally well if individuals are encouraged to pursue their own self-interest and prosperity. And this exposes the real incoherency of altruism: it rejects excellence—that is, excelling as individuals. A decent life for each and every individual is touted as the highest ideal, yet anyone who achieves such a life for himself is castigated as selfish.

Altruism is not prominent because it hangs together as a coherent position. It is prominent because no alternative moral doctrine has been effectively promulgated. From the earliest times of human thought, when most of mankind lived in subjugation, altruism seemed to a few to be a benign morality. To many more, it was a convenient doctrine by which to extract service from others. Because of its incoherence and impracticality, human beings could only implement the doctrine ineffectively, suffering guilt all the while. Yet, since it was not effectively opposed, altruism continued to serve as the standard by which human beings judged themselves and each other.

It is no surprise that many, aware of the hopelessness of a morality of altruism and equating altruism with morality, turned their backs on morality altogether. Thus, supported by the evident success of science and technology and by certain trends in philosophy, we find pragmatism alongside altruism as a main current in today's moral climate.

Scientific knowledge is highly regarded in pragmatism; and since claims about what is good or evil cannot be proven by standard scientific methods, morality tends to be discounted. As reflected in our use of the word *pragmatic*, pragmatism rejects principled conduct and is instead interested in efficiency, usefulness, and practicality.

This is the stance of economists who defend capitalism or the free market. In an effort to give economics scientific standing, economists have tried to rid their study of human social life of any mention of value. This "value-free" approach is well known in many social sciences. It is less well known that the most prominent defenders of the free market embrace this stance.

Those economists who reason along the value-free line argue that moral judgments, convictions, and principles and related aspects of human life really amount to no more than biases or personal preferences. There is, in their view, no meaningful difference between one person's preference for strawberry ice cream and another's preference for honesty. Though some people prize honesty more than their favorite ice cream, that some don't is merely a natural phenomenon. Science—which is the only route to *knowledge*—can say nothing about this. All it shows, as Milton Friedman once expressed it, is that "every individual serves his own interest....The great saints of history have served their 'private interest' just as the most money-grubbing miser has served his interest. The private interest is whatever it is that drives an individual."

A naive view of science does appear to support such a view. If all that concerns science is finding the causes of events—which many thinkers believe—then finding what drives an individual will suffice for scientific purposes. This view gives one the satisfaction of having a simple tool by which to explain human affairs. Moreover, progress seems to be on its side. Science and technology have facilitated innumerable advances in human life. They have produced the theories and tools by which we can manipulate the universe quite efficiently. And so the question arises, Why should they not succeed as well when it comes to human affairs?

The economic defense of capitalism—the so-called scientific defense—seems a promising one. Why is capitalism sound? Because it accords with the way we really are; it is the empirical way of things. Given this view, interference with the free market is artificial, disturbing of the natural balance. The theme has been advanced before, on numerous occasions, in support of various systems and policies. It might help capitalism too.

And capitalism has all along been in desperate need of help, with attacks upon it coming from both the political right and left. Baudelaire wrote: "Commerce is satanic, because it is the basest and vilest form of egoism." Balzac, in *Melmoth Reconciled*, declared that "when commercial interests are at stake, Moses might appear with his two luminous horns, and his coming would scarcely receive the honors of a pun; the gentlemen whose business it is to write the Market Reports would ignore his existence." And then there were, of course, Marx and Engels, writing in *The Communist Manifesto:*

> *The bourgeoisie...has pitilessly torn asunder the motley feudal ties that bound man to his "natural superiors," and has left remaining no other nexus between man and man than naked self-interest, than callous "cash payment." It has drowned the most heavenly ecstasies of religious fervor, of chivalrous enthusiasm...in the icy water of egotistical calculation. It has resolved personal worth into exchange value.*

How can those schooled in economics reply to such erudite, lofty assaults? They can dismiss it all as motivated by private interest and as unscientific "music," to quote Milton Friedman again. If the scorn of Baudelaire and Balzac, of Marx and Engels, is what morality has to offer, then no wonder people concerned with the actual world turn their backs on morality and claim a more realistic, scientific view of human affairs. Practical people realize that freedom of trade is responsible for prosperity. So if morality condemns freedom of trade and commerce, morality must be something confused—an obstacle to what is useful and workable. Morality, by its wide association with altruism, is thus rejected in favor of pragmatism, of practicality and efficiency.

But this is a mistake; for there is no escape from good and evil in human existence, and failing to think about them simply leaves the sphere for others to conquer. Nor does science require that we deny the place of morality and principles in human life. There is no sound reason to expect human life to be fully explained and understood along lines suited to physics, chemistry, or biology. Persons are beings with physical, chemical, and biological attributes, yes—but that is not all. Attempting to reduce the study of man to the study of other objects in the world doesn't make sense when the object is to understand something that is distinctive about human beings.

Ultimately, the value-free scientific approach to defending capitalism will not work, because human beings do have values. Science does not show that the system is decent; it shows only that if the system is adopted, we can mainly expect widespread economic productivity. Why should this be considered so crucial? Value-free economics does not have an answer.

There is an answer, however—that productivity is indeed morally right for us. We *should* lead lives that are productive. And we should do so because we will benefit from it, because we will live more in accord with our human nature if we produce things, if we strive to earn profits in business, if we seek to achieve our self-interest.

But it won't do to say only this much. The answer must be fleshed out. What is the meaning of *self* in *self-interest*? Is one's *interest* simply whatever one prefers or wishes for? How does the pursuit of one's interest square with the best ways to live in a society?

The idea of self involved here rests on the fact that each person is *human* and is *individual*. Identifying one's self-interest must take account of oneself both as an individual and as an intentionally social being.

There is no conflict between self-interest and the interest of others when all pursue their self-interest—not unless we construe the universe to be absurd from the outset. Why doesn't the basic interest, or good, of an individual clash with that of another? It could only do so if we mistakenly identified all our desires, wishes, and unreflective wants with our basic interest. But what is in our interest is not so simple as that.

A human being's basic interest cannot conflict with his basic human nature. Our basic human nature is characterized by the fact that we are rational living beings; that is, we are animals capable of thinking, reasoning, imagining, and so forth. As rational living beings, we benefit enormously from social interaction. Language, love, education, science, commerce, art, and

the other fruits of social intercourse benefit us, because we can both learn from and enjoy them tremendously.

Because we benefit from social interaction, rules of social life that promote decency and consideration are extremely beneficial to each of us. Indeed, such rules are the very *means* for constructive human associations beyond the narrow ties of family or clan. The appropriate principles of law and politics are the rights of individuals—on the order of the Bill of Rights that is part of the Constitution. These principles spell out the basic rules for organized social life that are to the mutual advantage of all members of society. The natural human rights all of us possess are principles by which we can guide ourselves in our relations to others for general, overall mutual benefit. Even if every wish or desire we have cannot be satisfied as we abide by these principles, they are to our general welfare, because they grow out of our human nature and what it requires for social life.

This is the framework within which a capitalist, free-market society is morally defensible. The guiding morality, drawn from a recognition of what it means to be a human individual, is the morality of rational self-interest. Let us consider, then, the consequences of this morality for commerce, the most visible feature of the system. What is the role of productivity—or profit making—within human life and in the social system that suits such life best?

I am referring here to the *virtue* of working for a profit. To strive to improve one's life, to be thrifty and prudent as well as self-fulfilled and joyful—all of this is morally admirable, commendable. To seek profit is right, indeed, for everyone.

Let me dispel a common confusion, however. Making profit cannot properly involve assault, fraud, theft, and other parasitic activities with which profit making is so often identified. The morality of productivity—of *making*, not taking profit—cannot, by its very nature, include stealing the productive result of others' activities. Profit making consists of activity that produces more than there was previously.

Beyond outright theft, embezzlement, or other forms of confiscation of private property—including the fruits of labor and ingenuity—there are less obvious ways of seeking to gain by coercion and interference with freedom. Government regulation, for instance, is a clear intrusion into the lives of citizens who have not been proven to be guilty of any violations of others' rights.

Usually, government regulation of our economic affairs is advocated on grounds that the poor, helpless, uninformed, and easily duped require protection. Regulatory agencies are assumed to express the care and thoughtfulness of politicians and the electorate.

But if we are as helpless and careless as some supporters of regulation may sincerely believe, such care would be futile anyway. For why, if we are so hapless, have bureaucrats escaped this fate? Why, if our local merchants and manufacturers, or those in large corporations, are crooked and malicious, wishing for a buck even if gained at the expense of someone's life or well-being, are politicians and their appointees immune to such temptation? And if they are not immune, is it not clearly unwise to centralize the forces of incompetence and malice instead of leaving them dispersed throughout the population so that individuals and organizations might cope with them more effectively?

Furthermore, government bodies set up to help us help ourselves often are captured by special-interest groups who use them to further their own ends. Licensing bureaus in the health and other professions, for example, do just exactly this. The proffered justification is that licensing locks out competition—from "fly-by-nights" and incompetents, of course—so as to help us. But all this kind of help comes to is a usurpation of our individual authority, our freedom.

It is the doctrine of altruism that supports such government interference with our freedom. In the name of helping others or improving society, our liberty to pursue life by our own judgment is curtailed constantly, even in a political community that was founded on the principle of individual rights. The mere chance that a marketplace exchange might leave the consumer or worker less well off than expected—the mere chance that such will occur justifies, from the altruistic point of view, the limitation of everyone's liberty. After all, according to altruism, what we do for ourselves with our liberty is negligible. So it doesn't matter if, in order to reduce the probability of wrongdoing, the chance of doing well by ourselves is curtailed or even eliminated. It doesn't matter if it will take millions of dollars to install airbags in all new cars—so long as this might help some people. Never mind that such policies deprive millions of people of the opportunity to choose whether to spend their funds for that or for something else for themselves or those for whom they care.

All this is crucial not only to the survival of a free and civilized society but to human life itself. That is why the altruistic ethics, which levels such a frontal attack on the idea of profit, must be confronted directly—on moral grounds—instead of pushed aside in favor of considerations of waste, of helping the unemployed, and of other pragmatic defenses of the profit system.

Ironically, it is not only intellectuals and politicians who distrust profit making—so do those who make profits. Most of them shy away from defending it. When confronted by sanctimonious politicians—at congressional hearings into the operations of various industries, for example—business representatives often offer lame excuses for doing well at their business instead of a straight, indeed proud, declaration that they are in the profession of making profits, and when these are big, they have done their work very well.

Many who are all too willing to have government regulate the business profession are eager to keep their own professions free of such regulation. The news media and the publishing industry are prime examples. While quick to resist government interference in their endeavors, they rarely speak out in support of other professionals who are regulated to the hilt. Yet many—perhaps most—books are written irresponsibly; numerous magazine articles contain falsehood and distortion; the news is often biased. Why is none of this seen as terrible enough to control the press? Because people in publishing know well enough that the risk of going wrong—including misinforming people, ruining reputations, and so on—is worth the creativity and progress that is only possible if their field is left free of coercion. They simply will not generalize this to cover other professions as well.

Those in other professions, however, are not favored by an explicit First Amendment in their own behalf. And those in business are not even of one mind about economic freedom. This lack of solidarity in the business community is not, however, very surprising. Ideas about what is right and wrong do not emerge, contrary to Karl Marx's teachings, from one's economic environment. Some of the most entrepreneurial individuals in the world are political socialists, while some of the most fervent advocates of capitalism are plain lazy. There simply is no "class consciousness" that governs people's thoughts on politics and ethics.

(Continued on p. 52)

Fifteen Years of REASON

Conservation In Deed

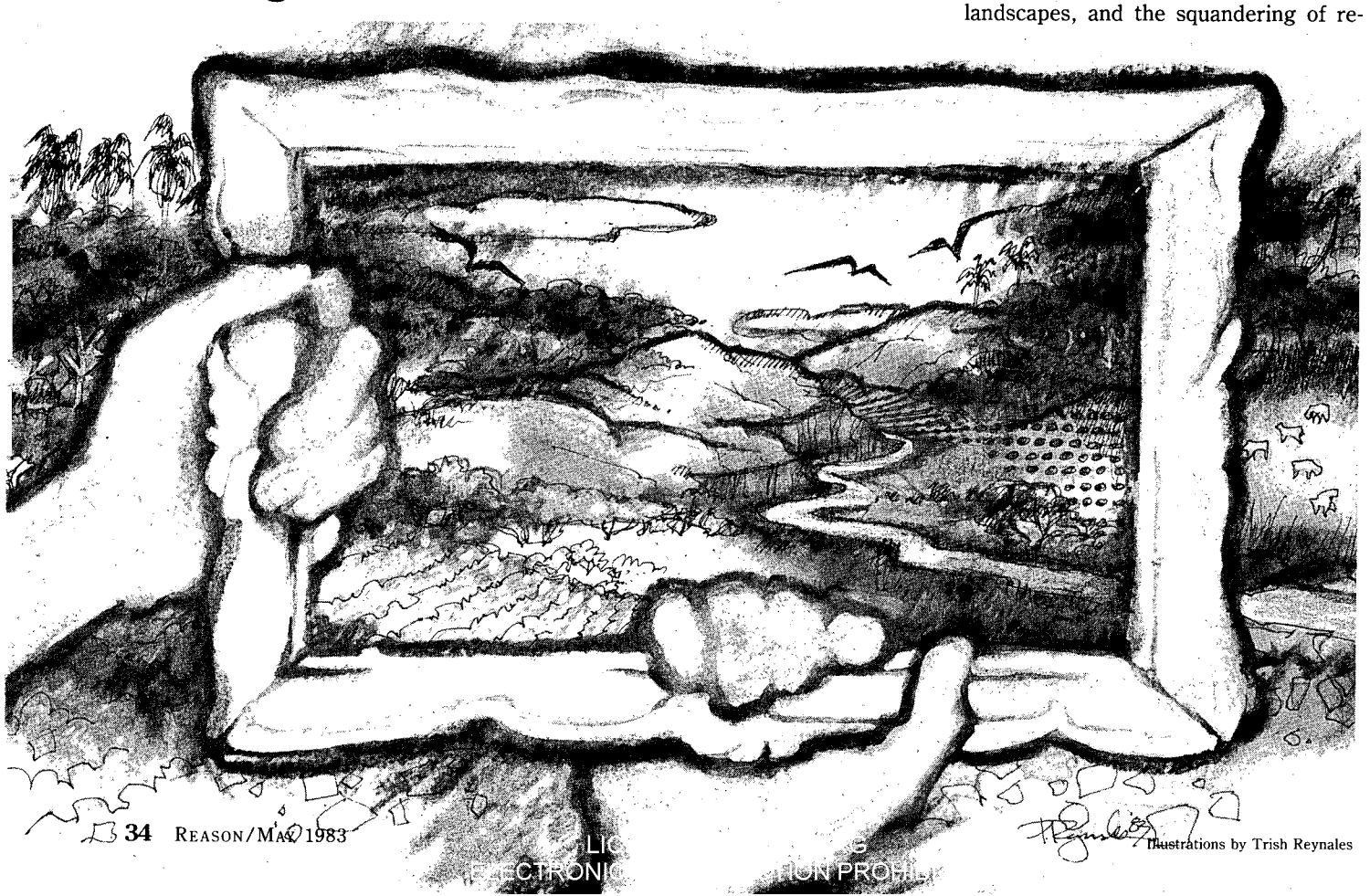
Saving the environment through ownership

By William Tucker

I would like to propose a redefinition of the problem of environmental degradation. It goes like this: Environmental damage occurs when someone is *losing* money. Or, alternately, losing money leads to environmental problems.

It's as simple as that. Operating an inefficient, money-losing enterprise causes persistent environmental damage. Making money, on the other hand, protects the environment and conserves resources for the future. A profit-making economy is the best system there is for protecting the natural environment.

Of course, this is directly contrary to the conventional wisdom. Environmental degradation, we have been told over the years, is caused by greedy business enterprises, driven by the "profit motive" in pursuit of the "almighty dollar." Pollution, the destruction of landscapes, and the squandering of re-



LIC... ELECTRONIC... ...TION PROHIB...

Illustrations by Trish Reynales

sources are all the result of an unfettered business sector that recognizes no other value but dollars and cents. After all, wouldn't business, if left unfettered, be putting a hydroelectric dam in the Grand Canyon to make money?

The answer is no. It wasn't business that wanted to put a dam in the Grand Canyon in the 1960s. It was the *government*—the Bureau of Reclamation, to be exact. And the government wasn't going to make any money at it, either. It was going to *lose* money—which is the only way the project was feasible in the first place.

Losing money damages the environment, spoils nature, and exhausts resources. Making money preserves the environment, protects nature, and conserves resources. In this simple lesson lies the way toward renewing the battle for environmental improvement in the hard-pressed 1980s—and returning a sense of individual responsibility to the American people.

How can making money conserve and improve the environment? Why is it that environmental damage is a violation of sensible economics? Understanding the point requires breaking out of the contemporary prison wherein all economic activity is seen as a two-sided conflict between "business" and "the consumer," or "the big interests" and "the people."

If this simplistic formulation is accepted, there are only two possible explanations of environmental destruction. The first says that the people are innocent (a popular enough notion), and big business is at fault. This latter, malicious sector, so the story goes, pollutes and destroys nature as a result of its "relentless pursuit of profits." Thus, the only solution is to "countervail" the power of business with a big government that spins a web of regulation and blocks business owners from doing just about anything. After 15 years of environmental effort, this is approximately where we are: the battle between environmentalists and their adversaries has become nothing more than a tug-of-war over whether to tighten or relax regulatory snares.

The only other possible view—a bit more jaundiced, perhaps—is that *people themselves* are the problem. There are too many people, it is argued, and only draconian programs for population control or perpetual stagnation (more romantically advocated as "no-growth" or "zero-sum" societies) can save us. People are perceived as being unnatural, out of tune with the harmony of nature. Only by cultivating some kind of mystical oneness with nature or retreating toward a pastoral, preindustrial state can we avoid overrunning our fragile environment.

Neither of these explanations of environmental problems gets to the real heart of the matter. Both miss a third player in the economic game, one who has a specific, personal interest in preserving the environment and protecting its value into the future. This is the *landlord*, the person who *owns* the natural resources in question. The environmental crisis has essentially been a problem of the decline of landlords. We no longer have landlords—owners—in place to protect and preserve the resources we are busy degrading. No one has a *personal interest* in protecting the environment.

Why don't we have contemporary landlords? There are two reasons. First, many of the resources we have begun to abuse are so diffuse that it is difficult to bring them under private ownership. It is difficult to define ownership for the air we breathe, running streams, groundwater aquifers, or whales that roam the far corners of the world the way we do for, say, an acre of land or a steer on the hoof. In all these instances, establishing rules for ownership and enforcing them may require some creativity. European kings once claimed ownership of all the deer in the forest, for example, and labeled anyone who killed one without permission a poacher. Ownership of a resource is necessary in order to prevent it from being treated as a "common pool" and exploited by all.

Far more frequently, however, the situation has worked in the opposite direction. In a wide variety of instances, government itself has insisted on acting as the owner of resources that could just as well be held in private hands. In these instances—the national forests, grazing lands in the West, water supplies, for example—government has insisted on playing the role of the landlord, under the illusory idea that it is best suited both to protect *and* to develop these resources for the greatest good of all.

Yet government does not make a very good landlord. Its agents, with no personal stake in the matter, do not try to maximize the government's rents, or income, from the resources; they do not employ the resources so that they will have their highest value for both today and tomorrow. Instead, under its common mandate to make everyone happy, government generally *subsidizes* the use of resources and shovels them onto today's market at far *below* their potential future value. As a result, these natural resources are abused, overused, and generally treated at far less than their true worth. *This* is why we have an "environmental crisis."

How did it all begin? Interestingly enough, an overwhelming number of today's environmental problems can be traced back to the first effort to deal with them, during the great conservation era of the early 1900s. It was then that the fateful decision was made to keep the vast majority of the West's resources—two-thirds of the land, for example, west of the Rockies—in the hands of the federal government.

The original logic of the conservation movement, under Theodore Roosevelt's leadership, was perhaps justified. In 1900, there simply weren't enough landlords around to take responsibility for the vast resources available. The country didn't yet have enough people to own them all. It seemed likely that selling them on the market would have meant turning them over to the railroad companies and other corporate baronies, which were already the object of extreme public resentment.

But the mandate with which progressive conservationism took over control of these resources was at best obscure and confusing—political, in other words—and has long outlived its usefulness. The government, strangely enough, was both to *conserve* resources and to *develop* them "for the greatest good of the greatest number in the long run," as the prominent conservationist Gifford Pinchot put it. These were lofty terms, but devoid of much practical meaning. To one person, *conservation* might mean a magnificent new dam backing up miles of running water for irrigation of the desert, while to another person it means preserving the landscape the way it was before human beings ever laid eyed on it.

Most important, the government made no attempt to collect proper *rents* on these resources. Rents—the income from resources—are the measure of how well they are being employed. Most people, environmentalists included, often believe that the only way people make money on land, for example, is to exploit it as quickly as possible. But this common conception completely misinterprets the economic motivation of the landlord. For the permanent owner of a resource, the best way to maintain high rents on a property is to *conserve its value* as far into the future as possible.

Landlords are not business operators. Businesses make their money out of current production. But a landlord expects to own a resource far into the future (or to sell it based on its value far into the future). Therefore, he wants to make its value last as long as possible. With renewable resources, this means using them at a pace that gives them plenty of time to regenerate. For a nonrenewable resource, it may mean holding it off the market as long as possible, while similar resources are diminishing, in order to optimize its scarcity value.

Governments, however, do the opposite. Under constant political pressure to please voters and build satisfied constituencies, they throw resources onto the market much more quickly than do private owners, sometimes even subsidizing development out of "their own" pockets—that is, with taxpayers' money. They plunder their own, or "the people's," resources in a way that no private landlord ever would.

Thus, in the end, the old conservation agencies have ended up the biggest environmental offenders of all.

- The Bureau of Land Management's ranchlands in the West are constantly overgrazed, while private landlords have no trouble keeping their own lands in good shape.
- The Bureau of Reclamation, with the ever-ready assistance of the Army Corps of Engineers, regularly drowns huge areas of prime farmland in order to create barely equivalent amounts of marginal farmland through ridiculously subsidized irrigation projects.
- The development of remote, useless federal lands has been promoted to such a degree that environmentalists have been forced to invent the tortured concept of "wilderness" in order to keep these areas from being invaded. The US Forest Service, for example, continues to subsidize expensive logging in remote "roadless" areas, while letting more accessible forest lands go untouched. John Baden, director of the Center for Political Economy and Natural Resources at Montana State University, estimates that the Forest Service, with the richest timber holdings in the world, still manages to lose $500 million a year on its operations. They must be doing something wrong; indeed, they are undervaluing "their" resources.

All this is poignant verification of Garrett Hardin's principle of the "tragedy of the commons"—that when a resource is held in common by a group of people, say by the American people, no individual user bears the full cost of using the resource, which is consequently overexploited.

Is it any wonder, then, that when contemporary environmentalists entered the political fray in the 1960s and '70s, they aimed their first fire at the old conservation agencies themselves—the US Forest Service, the Army Corps of Engineers, the Bureau of Land Management, and the Reclamation Bureau?

Environmentalists are, in a sense, landlords without an estate. They have the "land ethic," as their early prophet Aldo Leopold defined it. They understand the value of natural resources, even if they don't own them outright. They see that we cannot forever pillage our natural inheritance in order to promote immediate consumption. They recognize that undervaluing natural resources leads us into vicious cycles of technological extravagance, where it soon seems that we cannot tolerate even the slightest increase in scarcity without worrying that we are "running out of everything."

What environmentalists have not understood so clearly, however, is that in almost every instance it is government ownership of resources—which is naturally accompanied by government subsidization of consumption through low or nonexistent prices, tax incentives, and other popular measures—that leads to this dilemma. Governments don't mind losing money on resources, since they can always carry the bill back to the taxpayers. In fact, it is often assumed that government is doing something *virtuous* by losing money in managing resources.

But private landlords know better. Without the opportunity to cover their losses through taxation, they realize that losing money simply means badly managing resources and squandering their value. In the hard-pressed 1980s, protecting the environment is going to mean getting resources *out* of government hands and into the private sector. Only then can the spontaneous corrections of the marketplace spur owners to maintain the value of resources far into the future.

The problem of government ownership of resources did not begin in our era, nor did the dilemmas of environmental depredation. With these things in mind, let us take a closer look at the idea of landlords as a third force in economic history and see how the present situation has evolved.

Through the long annals of civilization, government ownership and participation in enterprise has been much more the rule than the exception. This is often overlooked by environmentalist interpretations of history. Environmentalists, for example, often cite the denuded hills of Greece, the ruined "breadbasket" of North Africa, or the sheep-stripped countryside of rural Spain as proof that (to try a common paraphrase) "humanity has never learned to be very kind to our natural surroundings."

Yet, in how many of these instances has it been government-subsidized industry, rather than private effort, at work? The point is critical, since private enterprises are subject to the checks of profits and losses, while government enterprises are not.

The Spanish crown, for example, ruined many of Spain's rural areas by establishing a national woolens industry with the money brought back from the New World by the conquistadors. The government appropriated huge amounts of private farmland and set up enclosures for sheep pasturage. The market was soon flooded by wool, of course, but the royal government paid no mind, intensifying its efforts. Eventually, it squandered all the gold of El Dorado and beat to death much of its medieval farmlands at the same time.

This depredation of Spain's countryside, then, is hardly an example of "man's destructive instincts." It is much more an example of the ability of centralized governments to ignore the checks and balances of the market system. Had a variety of individual independent landlords been making decisions to convert Spanish countryside to sheep pasture, the consequences for the wool market would have halted the process, and the countryside would have been far less devastated than by the decision of a single, centralized government.

The free-enterprise system, as we know it, didn't really evolve until after the time of Adam Smith—who didn't win his place in history by describing some free-market Garden of Eden around him but by envisioning what *could* exist if governments would leave off their mercantile interference in the economy and allow the checks and balances of the market system to operate freely.

Smith argued that there are three players in the economic game—laborers, capitalists, and landlords. Labor contributes its sweat and skills and earns its money through wages. Capitalists own and manage the tools of production and collect their return through profits. Landlords own the *natural resources*—land, for the most part, in Smith's day—and make their returns through *rents*.

Smith is chiefly remembered as an apologist for business, even though *Wealth of Nations* is actually one long political treatise *against* businesses' for

getting government to restrict trade on their behalf. Yet in retrospect, it is easy to see why Smith is still considered the "philosopher of big business." He was at least willing to accept the *legitimacy* of both profits and rents in the economic system. By constantly seeking higher profits, he argued, capitalists ensure that their materials will be put to their highest-valued uses. At the same time, by constantly seeking to optimize their rents, landlords direct natural resources to their highest-valued uses—which includes the possibility of reserving them altogether from present consumption in order to save them for future use.

Later economists doubted the stability of the system. David Ricardo, the outstanding economist of the early 19th century, for example, argued that this model was irrevocably biased in favor of landlords. A successful banker himself, Ricardo said that because the amount of land is fixed, landlords would keep raising their rents, eventually accumulating most of the wealth in the economy.

Like Malthus, his contemporary, Ricardo did not see that the value of land is not economically immutable—that through additional infusions of both capital and labor, less land can produce more goods. Thus, US production has developed to the point where, presently, the contribution of labor is estimated at about 80 percent of the total value, capital at about 12 percent, and natural resources at only about 8 percent. In 1961, economist Robert Heilbroner could write that "the landlord's domination over the economy is a textbook curiosity" and that "the problem of rent has become almost an academic side issue in the modern world." This was before the environmental crisis began to emerge.

While Ricardo suggested that rents are illegitimate, Karl Marx went even further. He argued that both rents and profits—but particularly profits—represent "exploitation" and are actually "stolen" from their rightful owners, the workers. Moreover, he argued, these "excess profits" are so unbalancing that capitalists would end up with all the money. This, in turn, would lead workers to revolt, overthrow the system, and set up a utopian society.

Neither of these criticisms of Smith's basic model has proved very good at predicting history. Neither landlords nor capitalists have become all-powerful, while the lot of the average worker in capitalist countries has steadily improved. Smith's model holds up very well indeed for contemporary society.

Smith's model does suggest, however, where to start looking for consequences if one or more of the three groups succeeds in gaining, not enough wealth, but enough *political domination* to try to manipulate the system in its favor. If capitalists, for example, manage to artificially hold down wages through legal means—as they often did during the 19th century—then we can expect the lot of laborers to deteriorate, leading perhaps to the sort of consequences that Marx predicted of a pure free-market system. If, on the other hand, capitalists are politically prevented from collecting their profits, then we can expect an abatement of their enterprising efforts and perhaps the sort of "stagflation" that afflicts so many economies today.

And finally, if *landlords* are politically prevented from collecting their *rents*, then we can expect the *resource base* to deteriorate. Thus, the question of rents and landlords is not a "textbook curiosity." On the contrary, when landlords are gradually excluded from their role in the economy, an "environmental crisis" ensues.

What has clearly happened in contemporary economies is a distinct diminution in the ability of landlords to act as stewards of natural resources. This evolution is fairly easy to trace. Landlords have never been very popular in history—perhaps even less popular than business people. Gradually, political pressures have constricted their latitude in exercising control over their own resources. Or, alternately, these same pressures have pushed resources completely out of private hands and into the arms of government. There they become "the people's" resources, "free" for exploitation.

This pattern of pressure against landlords inevitably leads to overexploitation of resources and environmental damage. The "common ruin of all," as Garrett Hardin described it, is the unavoidable consequence. Without landlords, there can be no environmental protection.

Let me illustrate all this with a homely, and perhaps a bit oblique, example—rent control in New York City. Apartment buildings are not a "natural" resource, but as a standing resource they operate very much like one in the market. As with land itself, they are continuously renewable if used properly. The builders of apartments are capitalists, but their long-term owners can be properly called landlords.

These resource-owners have two basic impulses—to collect optimal rents today, given the market supply of and demand for apartments, and to go on collecting

them into the future. The owner will one day die, of course, but he can always sell the building first or pass it on to his heirs. *At no point does it ever pay a landlord to allow the value of his property to deteriorate.* All the damage would be absorbed by the landlord himself, with no compensating benefit. Landlords have a built-in "conservation ethic" that comes with the job.

The politics of New York City, however, does not allow landlords to collect market rents on their apartments. This is accomplished under a variety of political flim-flams, dating back to a "temporary" measure imposed during World War II that has never been removed. Despite all the demagoguery about "greedy landlords" that continually rationalizes rent control, most people recognize that, at bottom, rent control is nothing but an immensely popular political device that allows the city's huge tenant population to exploit a small minority of landlords. (The proof of this is that nothing upsets "tenants' rights" groups so much as the suggestion that they themselves take on the responsibilities of being landlords. Condominium and cooperative conversions are fought with even greater fury than the occasional fuel pass-along or rent increase. Without a captive landlord population, tenants would have no one left to exploit.)

Is it only landlords that are exploited, however? The answer is no. Unable to collect market rents, the landlords begin to lose money. They can no longer afford to make repairs on their buildings. The apartments begin to deteriorate, which drives down rents (both economically and legally), which in turn makes it even harder to pay for repairs. Landlords then are even more greatly condemned, and rents are pushed down even further. Eventually, many owners simply abandon buildings, even though they may represent a lifetime investment. Without proper rents, no one can play the role of landlord forever.

The deterioration and destruction of New York City's rental housing market is there for all to see. Despite population growth and a continuously high demand for housing, the city now has fewer available rental units than it did in 1942, when rent controls were originally imposed. Whole blocks of apartment buildings now stand in ruins, while privately owned houses only a few blocks away remain in perfect condition.

Obviously, it is not only landlords who suffer when they are not allowed to collect market rents. Sooner or later, the exploiting population will have eaten its way through all the landlords' wealth. People then begin to devour the *resource itself* that landlords, in their own private interest, originally had set out to protect.

New York City's tenants are a population in the process of destroying its environment. Though it is not a natural environment, the economic principles are the same. When popular pressures prevent landlords from collecting proper rents and playing their legitimate role as conservors and protectors of resources, it is only a matter of time before the *resources themselves* will be degraded and eventually destroyed.

The contemporary economist who has perceived this dilemma most clearly is, not surprisingly, also generally regarded as the leading theorist of the environmental movement. He is Herman Daly, professor of resource economics at Louisiana State University.

In his 1977 book, *Steady-State Economics*, Daly identified the economic root of the contemporary environmental crisis as the success of both contemporary labor (which I take to be interchangeable with "consumers") and business in politically exploiting a much-reduced "landlord class."

Landlords were the most powerful social class in feudal times, but in modern capitalism they are the least powerful class, and whatever power they might exert toward raising resource prices is undercut by the government, which is the largest resource owner and which follows a policy of cheap resources in order to benefit and ease the conflict between the two dominant classes, labor and capital. . . .

Capital and labor are the two social classes that produce and divide up the firm's product. They are in basic conflict but must live together. They minimize conflict by growth and by throwing the growth-induced burden of diminishing returns onto resource productivity. How do they get away with it? In earlier times it might not have worked; a strong landlord class would have had an interest in keeping resource prices from falling too low. But today we have no such class to exert countervailing upward pressure on resource prices. . . .

Should we, by a kind of reverse land reform, reinstate a landlord class? Landlord rent is unearned income, and we find income based on ownership of that which no one produced to be ethically distasteful. No one loves a landlord . . . and not many lament the historical demise of the landowning aristocracy. But not all the long-run consequences of this demise are favorable. Rent may be an illegitimate source of income, but it is a totally legitimate and necessary price, without which efficient allocation of scarce resources would be impossible.

Although Daly was writing for the environmental movement, few environmentalists have taken his points to heart. In particular, many still seem fixed on the idea that making money is the root of all environmental problems. This is because they confuse business people with landlords. Businesses do indeed make money by using resources for current production. But landlords make money by *limiting* the use of scarce resources, by conserving and protecting them for future availability. This is why the profit motive—or, more correctly, the "rent motive"—is the most important tool we have for protecting the environment.

The model of missing landlords makes understandable a whole range of environmental difficulties. Take the following examples:

Question: Why did the Bureau of Reclamation want to build a dam in the Grand Canyon? Answer: Because it is in the business of subsidizing the use of the resources it controls. The underpricing of its land and water leads to an ever-increasing demand for both, which can only be met by building more and bigger projects. If the government charged people market prices—collected proper rents and profits, in other words—then conservation would become economical and the accelerating demand for these resources would quickly vanish.

Question: Why did we develop such an oil-dependent economy before the 1970s? Answer: Because, right from the beginning, the government subsidized oil development, at the behest of both industry and consumers. As early as 1920, oil-depletion allowances reversed the ordinary economics of a finite resource and artificially accelerated its development. Only when US oil resources had been prematurely drawn down by the early 1970s were US suppliers forced to go abroad. Even then, nothing happened until the landlords of world oil supplies—the OPEC nations—began to collect market rents. When these economic realities finally sank in (delayed somewhat by our decade-long romance with oil price controls), technology and consumption habits quickly shifted to a more efficient basis. As a result, the "oil crisis" of the last decade has quickly disappeared.

Question: Why is it necessary to create designated wildernesses to preserve even the most marginal federal lands from development? Answer: Because the

development of these lands is being subsidized. Without the government accepting losses on the use of these lands, they would remain just what they are today—wildernesses.

Question: Why is the Army Corps of Engineers such an environmental disaster? Answer: Because it never has to make money.

Question: Why are groundwater supplies in many parts of the nation being rapidly exhausted? Answer: Because forms of ownership of these natural "common pools" have not been defined. Instead, people can draw on them for free. A sensible landlord would charge people for drilling wells into these underground reservoirs. And once market rents were collected on these resources, pricing mechanisms would stimulate the proper conservation practices, and the "groundwater crisis" would disappear.

The best way for the owner to maintain high rents on a resource is to conserve its value as far into the future as possible.

Question: Why don't we see the development of clean, efficient "alternative" energy technologies? Answer: Because governments everywhere subsidize centralized electricity. Researchers John Baden and Richard Stroup, of Montana State University, have discovered that a private utility, the Jacobs Wind Electric Company, was successfully selling windmill-generated electricity to midwestern farmers in the 1920s—a promising start on the technology. The business was wiped out, however, by the Rural Electrification Administration, which brought in subsidized coal power in the 1930s. Early solar water-heating efforts in southern California suffered a similar fate. Even today, the major obstacle to solar systems is the constant subsidized overconsumption of electricity encouraged by state utility commissions, plus federal price controls on natural gas.

And so on and so forth. In each of these instances, it is government intervention in the economy, not the working of the marketplace itself, that leads to the short-changing of environmental values.

Some environmental problems are far more tricky, of course. For instance, it is difficult to define property rights for the air around us. It cannot be parceled out in one-acre lots (although it can be defined in terms of "airsheds"). To prevent pollution, however, there must be some kind of ownership, and people must be charged for using the air as a dumping ground. (We have, instead, clumsy regulations that tell industries where and when to install antipollution equipment, and even what kind of equipment to install. The result is a ham-handed bureaucracy and endless lawsuits, rather than an efficient clean-up.) Problems like toxic chemicals and pesticides, with their long-delayed after-effects, pose unique problems of liability and long-term responsibility that may require new inventions in risk insurance.

But there is not an environmental problem anywhere that cannot be reduced to the fundamental paradigm of resource ownership and the failure to allow landlords to take care of their property. This is because (1) ownership structures, where they are difficult to define, have not been set up; (2) governments, under popular pressures, have prevented private landlords from exercising their rights of ownership; or (3) the government itself has taken control of a resource and makes it available to the public on a subsidized or common-pool basis, without charging adequate rents to optimize its value. In all three cases, the result is the same—degradation of the resource and erosion of the quality of the environment.

Does this mean, as Herman Daly suggests, that we have to "reinstate a landlord class" to solve environmental problems? Not, I believe, in the way Daly implies. (Daly himself shies away from the dilemma and, strangely and paradoxically, calls for *even more* government control over resources as a solution. He apparently does not recognize that in an industrial society capital and labor are a permanent majority and will always, if given the chance, use government to exploit landlords and natural resources.)

Instead, I would like to suggest a very American solution to the problem. "Reinstating a landlord class" does not have to mean a return to the landholding aristocracies of the Middle Ages. Rather, it should mean that we would all get a chance to become landlords. That would give everyone a piece of the "conservation ethic"—just as the diffusion of industrial wealth throughout the population has given everyone a stake in the economy.

Let us take, for example, the 170 million acres owned and managed "for the greatest good of the greatest number" by the Bureau of Land Management, a sprawling federal bureaucracy with 5,000 employees operating on an annual budget of well over $1 billion. Selling off whatever lands private owners would be willing to purchase (probably only about 10 percent)—and abolishing the federal mandate to develop the rest at any cost—would alleviate the problems of collective ownership and put resources in the hands of people who would conserve them because it would be in their *private interest* to do so. It would, incidentally, also pay off at least $200 billion of the national debt, which only illustrates how "land poor" the federal government and its bureaucracies have become. In the early 19th century, the federal government paid off its Revolutionary War debts in the same way. Such a land sale would represent a continuation of the principle of decentralized ownership on which the country was founded.

Federal bureaucrats, of course, will oppose it. So will many environmentalists—who have, unfortunately, grown quite accustomed to exercising their power in the halls of Washington's bureaucracies. They and others will continue to confuse businesses with landlords and will argue that the desire of every private property owner will only be to develop and exploit his resources as fast as possible.

But a true understanding of the historic role of landlords should make us realize that it is the property owner's "land ethic" that ultimately keeps us from destroying our natural heritage. True stewardship and conservation are only nurtured by the experience of individual ownership—in a system where landlords are left free to preserve the value of their property and are protected from the universal political tendency to exploit someone else's resource without paying the costs. Until the impulse to protect the environment is harnessed to the private desires of landlords to care for their own property, environmental problems will never be solved. We are all going to have to learn to become landlords. ◻

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A new kind of "living will" would protect people from involuntary psychiatric intervention

BY THOMAS SZASZ

Fifteen YEARS OF Reason

PSYCHIATRIC SELF-DEFENSE

In the last two decades there has been a widening public recognition that much of psychiatric practice rests on or involves coercion and violence. As this recognition grew, there emerged a concern, not least among former psychiatric patients, with "patient's rights," especially the right to reject psychiatric treatment.

Since politics, however, is the art of saying one thing and doing another, the mental health establishment—which is nothing if it isn't political—lost no time in coopting the patients' rights issue. Whereas formerly the code phrase in the mental health reform business was *mental illness*, now it became *the rights of mental patients*. The phrase *the right to treatment* has become a formidable new weapon in the psychiatrists' perennial struggle to oppress and control the "mental patient."

Today, coercive psychiatrists themselves freely admit that in the past mental patients were deprived of liberty by being involuntarily "warehoused." But that is no longer true, they say. Now mental patients are guaranteed their "right to treatment," especially with so-called antipsychotic drugs.

The enormous importance of the right-to-treatment rhetoric is illustrated by Kenneth Donaldson's famous appeal to the Supreme Court in 1975. The appeal was brought on Donaldson's behalf by a group of mental health reform lawyers on the ground that Donaldson's rights had been violated when he was deprived of treatment during incarceration in a mental institution. The appeal was supported by every major mental health group in the country, including such traditional enemies of the involuntary mental patient as the American Psychiatric Association and the American Orthopsychiatric Association.

It is important to emphasize and recognize that the mental health establishment's sudden concern with patients' rights has thus left completely untouched the age-old problem of what to do with the "mental patient" who refuses treatment. The stubborn fact is that ever since the birth of psychiatry, people have been deprived of the right to reject the ministrations of mad doctors. For 200 years or more, people were deprived of this right on the grounds that they were "insane" or "psychotic" and hence were incompetent to manage their lives. For the past 15 years or so—since the advent of the patients' rights rhetoric—people have been deprived of this right on the ground that their "true interests" require that they receive "life-saving psychiatric treatment." Although some of the legal protections provided to mental patients might have worked to their temporary advantage, I believe that, on balance, the added legal attention lavished on the so-called rights of mental patients has served only to authenticate further the legitimacy of depriving them of the only right that counts—the right to reject treatment, the right to reject being cast in the role of mental patient; in short, the right to reject psychiatric authority.

ENDING THE REIGN OF THE PSYCHIATRIC INQUISITION

Whenever force is an established method of resolving an ideological conflict, it is likely that the proponents and opponents of force do not speak the same language. For example, during the waning days of the Inquisition, the advocates of clerical tortures feared heresy and the imaginary terrors of eternal damnation and embraced the Inquisition as a protection against these dangers; whereas the critics of such torture feared the Inquisition and its very real terrors and embraced the ideas of the Enlightenment as a protection against these dangers. Today, the proponents of psychiatric coercion fear psychosis and the dire consequences of psychiatric neglect; whereas the opponents of such coercion fear

Illustration by Tom Dillon

psychiatry and the dire consequences of involuntary psychiatric interventions.

Recently, a report on "patients' rights" in *Psychiatric News*, the American Psychiatric Association's official newspaper, explained that psychiatrists no longer think "in terms of physical restrictions on freedom but of the shackles of [psychiatric] illness itself and the patient's right to freedom from this mental restraint." The report cited the views of two "experts" on patients' rights according to whom involuntary mental hospitalization and "treatment" actually increase the involuntary mental patients' freedom:

> *We would submit that commitment can be justified on the grounds of enhancing the individual's future freedom. If society insisted that freedom be the only purpose of commitment, commitment to achieve a real lack of unnecessary constraints from mental illness and to increase a patient's options could be justified. . . . Such an approach . . . would place psychiatry fully behind the principle that psychiatric institutions be utilized for increasing the freedom of the mentally ill.*

This rhetoric of "psychiatric slavery in the name of mentally healthy freedom" explains a seeming paradox: the professional advocates of the rights of mental patients are the most determined adversaries of former mental patients' groups that are lobbying for mental patients' right to reject treatment.

Sadly, but not surprisingly, psychiatric reformers have sought and continue to seek to improve the mental health system by doing even more for the patient, for society, or for both. Thus, they have tried to protect the patient from himself or from those who might exploit or mistreat him; they have tried to protect society from the "dangerous" patient and his "illness"; and, most recently, they have tried to restore the "sick patient" to "mental health." Each of these efforts is paternalistic in principle and coercive in practice.

The individualist approach to the core problem of psychiatry—namely, coercion in the name of mental health—is radically different. Viewing psychiatric coercion as essentially similar to religious coercion, the individualist solution to it is also similar. That solution, exemplified by the Founding Fathers' position on clerical power, was to protect the free practice of religion but to abolish coercion in the name of God. The individualist solution to clinical coercion is the same: to protect the free practice of psychiatry but to abolish coercion in the name of mental health.

Simple? Of course. Why, then, are so few people interested in it? The answer to that question is not so simple. I shall point here only to one of the reasons for it.

When the United States went through its birth pangs, violence in the name of God was an accepted political and legal principle throughout Europe and indeed the whole world. What justified this practice? We know the answer only too well: an alliance between church and state that made the use of force in the service of God as legitimate as the use of force in the service of Caesar. The soldier protected the commonwealth from external enemies. The inquisitor protected it from internal enemies, especially heretics.

The problem of religious coercion, like the problem of psychiatric coercion, could be approached in two ways. One way would be to look to the state to protect the victims of clerical power. This would generate a rhetoric about the rights of heretics and demands for guaranteeing the heretic's right to proper (that is, orthodox) worship. The other approach would be to recognize that the source of clerical power lies in an alliance between church and state. This realization would generate (as it did in the United States) a rhetoric about the separation of church and state and demands for making worship the private affair of the worshipper.

We can easily see how the first course only aggravates the problem. By guaranteeing the absurdity of the heretic's right to embrace the true faith, it further authenticates the legitimacy of religious coercion. Similarly, coercion, being the result of an alliance between psychiatry and the state, can be ended only by a separation of psychiatry and the state. Any other course, particularly the state's "guaranteeing" the absurd right of mental patients to receive treatment can lead only to reauthenticating the legitimacy of psychiatric coercion. The history of mental health reform in the United States during the past 15 years illustrates and supports the validity of this interpretation.

Psychiatrists, however, contend that insane persons—out of touch with reality, misinterpreting therapy as torture—cannot competently consent to or reject psychiatric interventions. And many people, perhaps the majority of the population, believe that this is true. So some special legal mechanism is necessary for realistically implementing a separation of psychiatry and the state. Such a mechanism is prefigured in procedures that people in Western societies have developed for coping with other situations in which a moral agent's capacity to act competently is diminished or destroyed. There are two typical situations of this sort: death and incapacitating terminal illness. And there are two legal instruments that have been developed to cope with them: wills (last wills and testaments) and so-called living wills. I propose that we create a third type of will—the "psychiatric will."

SECURING THE RIGHT TO AN UNMOLESTED MIND

Many of us are eager to exercise our desires over the distribution of our property after we die. The purpose of the last will is to assure this by extending our control into a situation in which we cannot otherwise exercise any control at all.

While the use of last wills is an ancient practice, the use of living wills, in anticipation of a lingering, painful, and expensive terminal illness, is of more recent origin. Executed while the person is not disabled by illness, a living will directs those responsible for caring for its author to abstain under certain circumstances from administering to him or her life-sustaining measures. The legal philosophy underlying this practice is illustrated by the following opinion of a Kansas court: "Anglo-American law starts with the premise of thoroughgoing self-determination. It follows that each man is considered to be the master of his own body, and he may, if he be of sound mind, expressly prohibit the performance of life-saving surgery."

The psychiatric will I propose rests on the same principle and seeks to extend it to "mental treatment." It asserts, in effect, that competent American adults should have a recognized right to reject ahead of time involuntary psychiatric interventions that they may be deemed to require in the future when they are considered incompetent to make decisions concerning their own welfare. My model for the psychiatric will is the so-called living will and, more specifically, the rejection by Jehovah's Witnesses of blood transfusion as a medical treatment.

A frequently cited opinion concerning the constitutionality of allowing Jehovah's Witnesses to reject blood transfusion, even when the transfusion may be lifesaving, was formulated in 1964 by Chief Justice (then Circuit Judge) Warren Burger. In this opinion, Burger recalled Justice Brandeis's famous words about our "right to be let

alone." "The makers of our Constitution," wrote Brandeis, "sought to protect Americans in their beliefs, their thoughts, their emotions, and their sensations. They conferred, as against the Government, the right to be let alone—the most comprehensive of rights, the right most valued by civilized man." To which Burger added these (for my present purposes, decisive) words: "Nothing in this utterance suggests that Justice Brandeis thought an individual possessed these rights only as to *sensible* beliefs, *valid* thoughts, *reasonable* emotions, or *well-founded* sensations. I suggest he intended to include a great many foolish, unreasonable, and even absurd ideas which do not conform, such as refusing medical treatment even at great risk."

As we have seen, then, where the person is conscious and rational, the courts have tended to accept the principle that a person has a right to refuse medical treatment even if the result is death. "Even in an emergency situation," an article in the *Journal of Medical Ethics* recently explained, "where death would ensue if treatment were not administered, the court upheld a patient's refusal of treatment."

Since involuntary psychiatric intervention is rarely lifesaving (and even if it were, that would not be enough under the foregoing ethical-legal principles to justify its forcible imposition on unwilling clients), the *parens patriae* rationale for psychiatric coercion is fatally undermined. The psychiatric will would implement the right to reject psychiatric treatment for people deemed to be fully competent and rational at the time they made their decision. On what constitutional, moral, or political grounds could Americans be denied this right?

ESTABLISHING THE FORM OF THE PSYCHIATRIC WILL

Many people (and virtually all psychiatrists and other mental health experts) fear the danger of a "nervous breakdown" or "psychotic illness." These people believe that mental illness exists, that it is like any other illness, that it is amenable to modern psychiatric treatment, and that the effectiveness and legitimacy of such treatment do not depend on the patient's consent to it. Accordingly, such people seek protection from "life-threatening" mental illness and support the use of involuntary psychiatric interventions.

On the other hand, there are other people (including a few psychiatrists and other mental health experts) who fear the danger of compulsory psychiatry or involuntary "therapy." Some of these people also believe that mental illness does *not* exist and that psychiatric coercion is torture rather than treatment. Accordingly, these people seek protection from the powers of psychiatry and advocate the abolition of involuntary psychiatric interventions.

Let us now apply the principles underlying the last testament and the living will to the psychiatric contingency some people might want to anticipate and control, such as "sudden madness" or "acute psychosis." Since involuntary psychiatric confinement is a tradition-honored custom in modern societies, these people are wise to anticipate the possibility of their own sudden madness managed by others by means of commitment and coerced treatment. To forestall that happening, we need a mechanism permitting anyone who has reached the age of maturity to execute a "psychiatric will" prohibiting his confinement in a mental hospital or his involuntary treatment for mental illness. Those failing to execute such a document before an actual encounter with coercive psychiatry would, of course, have the opportunity to do so as soon as they "recovered" from their first episode of "mental illness" or otherwise regained their competence.

Since commitment entails the loss of liberty, the foregoing mechanism for its protection is relatively weak. It requires the affirmative assertion of a desire to do without involuntary psychiatric care, and in the absence of such a declaration, the person would remain a potentially defenseless victim of psychiatric coercion. So even though this kind of psychiatric will would be a great improvement over the present situation, a more powerful document could be fashioned by shifting the presumptive rights. In this stronger version, a person would be free from psychiatric coercion unless he executed a psychiatric will in advance that asserted his right to such coercion should the "need" for it arise. This arrangement would leave most of us free from psychiatric coercion, much as we are free, without having to go to such troubles, from religious coercion.

The second version of the psychiatric will is stronger and theoretically more attractive than the first. But because the paternalistic perspective on involuntary psychiatric interventions is now so prevalent, the weaker version may be more acceptable to most people and to their elected representatives. Of course, the rejection of psychiatric interventions need not be total in either version of such a will. For example, some persons might wish to authorize coerced hospitalization and to forbid treatment by drugs or electroshock, while others might wish to authorize coerced drug therapy and to forbid confinement. Only through a mechanism such as this could the responsibilities as well as the rights of the "severely mentally ill" be expanded.

The use of psychiatric wills might put an end to the dispute about involuntary psychiatric interventions. Earnestly applied, such a policy should satisfy the demands of involuntary psychiatry's proponents (the psychiatric protectionists) and its opponents (the psychiatric voluntarists). Surely, the psychiatric protectionists could not in good faith object when people who were competent to make binding decisions about their own future chose to prohibit personally unauthorized psychiatric assistance. Nor could the psychiatric abolitionists really complain when other people who were competent to make binding decisions about their future chose to permit their own temporary (or not-so-temporary) psychiatric "enslavement."

Finally, it should be noted that although the main purpose of the psychiatric will would be to protect potential patients from unwanted psychiatric interventions, such a document would also protect would-be therapists from the risks they now face in their relations with involuntary mental patients. This dual function of the psychiatric will is inherent in its being an instrument for transforming a status relationship into a contractual relationship.

As matters now stand, psychiatrists faced with the task of having to care for "seriously ill mental patients" often find themselves in a Catch-22 situation. They are in danger of being sued both for confining and for failing to confine the "patient," for using coercive treatment as well as for failing to use it. The psychiatric will, prospectively requesting or refusing involuntary psychiatric interventions, would constitute a contract between potential future psychiatric patients and their potential future psychiatrists. Hence, while it would protect the former from psychiatric coercion or psychiatric neglect (as the case may be), it would protect the latter from charges of unauthorized treatment or unprofessional neglect. ◻

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Supply-Side Boom

By Arthur Laffer

FIFTEEN YEARS OF Reason

The long-awaited tax cut is fueling the recovery—but dangers still lurk.

Nineteen eighty-three marks the first year of what will come to be known as the "supply-side boom," set off by the policies known as Reaganomics. Last September my associate, Charles Kadlec, and I predicted that the recovery would begin in the first quarter of this year, as it has. While other forecasters were estimating a mere 2.8 percent increase in real gross national product for the year, we predicted 4 to 5 percent GNP growth, along with continued declines in interest rates and inflation less than five percent. Already, our forecasts seem unduly pessimistic.

What is propelling the boom is the long-awaited personal income tax rate cut that arrived on January 1. On that day, tax rates fell to 20 percent below their 1980 level and 10 percent below the level that prevailed during all of 1982. Married individuals filing a joint return, for example, will not enter the 25 percent tax bracket this year until their taxable income exceeds $24,600—$4,400 higher than for 1982. The 44 percent tax bracket will not be reached until taxable income exceeds $109,400—$23,800 higher than in 1982.

This change in tax rates is far more important to the economy than the literal change in withholding schedules that will occur on July 1. When the amount of taxes withheld declined by approximately 10 percent last July 1, net cash flow in the economy did not change. Since government spending was unchanged by the change in withholding, borrowing requirements rose dollar for dollar with the increase in take-home pay. The cash flowing into consumers' pockets by the lower withholdings was matched by the cash flowing back to the government to fund the increased deficit. The result: net cash flows to the economy were zero.

The key to the stimulative effect of the tax cut lies elsewhere—in increased incentives. Suppose, for example, that you are an employer, and consider how much more your employees would value their jobs if they could take home the full amount of what they cost the firm. Just as important, how many more individuals would be employed if they actually cost the firm what they now take home? As this tax wedge between what employees cost the firm and what they take home narrows, both parties are better off. More of the now lower-taxed activity takes place. As personal income tax rates decline, incentives to work and produce increase.

Tax policy, then, bodes well for recovery. Monetary policy is still a question. And lower energy prices will serve to complement the beneficial effects of the tax effects.

Since last year, the Federal Reserve's abandonment of targeting monetary aggregates has been accompanied by a steep decline in interest rates and a surge in money-growth rates. But the question for the future is, What will guide monetary policy?

For much of 1982 the Fed behaved as if its goal were to keep commodity price indices within a relatively narrow range. More recently, however, the Fed has lowered the discount rate several times even though commodity prices showed more erratic movements.

In response to our October 1982 article suggesting that the Fed was following an implicit price-stabilization rule, Chairman Paul Volcker pointed out the difficulty of focusing on commodity price indices at a time when many commodity prices have been severely depressed by the recession. Until the economy recovers, the Fed will have to monitor what Volcker calls "various indicators of inflationary pressures." The recent fall in the price of gold, decline in commodity price indices and long-term interest rates, and the strength of the dollar on foreign exchange markets all suggest continued success in the Federal Reserve's efforts to stabilize the price level.

In any case, the Fed's actions are circumscribed by price movements. For the Fed to err on the side of ease now could translate in short order into higher rates of inflation. Recent high rates of monetary growth are fine as long as commodity prices are generally stable. They indicate an increase in the demand for money that is part-and-parcel of growing confidence in the outlook for inflation and consequent reduction in interest rates. In this case, fast money growth is a sign of success.

If commodity prices begin to surge, however, this symptom of success turns with a vengeance into the escutcheon of failure. A sharp rise in commodity prices would signal a flight from money and a loss of confidence in monetary policy. Fast money growth under these circumstances would be highly inflationary.

Erring on the side of tightness has equally ominous implications for the economy. Refusing to accommodate today's demand for money balances would tend to drive commodity prices down and interest rates up. Wrenching the credit markets in this way would stifle the recovery, while the ensuing liquidity squeeze would clog the already overcrowded bankruptcy courts and unemployment offices across the country.

Beginning with US decontrol of oil prices in early 1981, competition has been the rule of the day in the energy business. Removing the United States from active participation in the cartel destroyed OPEC's ability to dictate prices in this country. OPEC has been losing market share in a shrinking market. World oil production has fallen and, along with it, OPEC's share of the oil market. With forecasts for oil prices now ranging from $10 to $30 per barrel and little chance for any significant advance for three to five years, the incentive for most of the world's energy producers is to pump oil, dig coal, and transport natural gas now while the price is high.

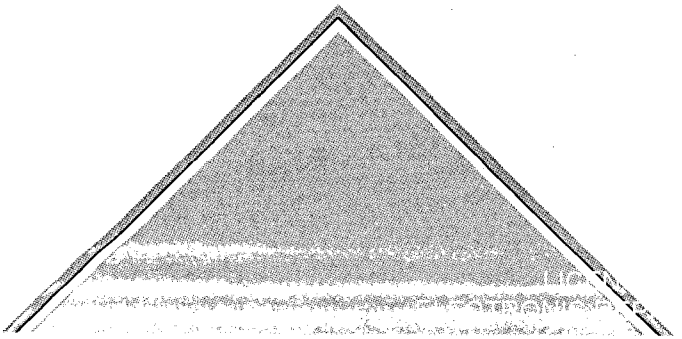
Conversely, consumers of energy have an incentive to defer energy consumption as long as possible. The implications of an increase in non-OPEC energy production and the continued decline in energy demand create tremendous downward pressure on oil prices. OPEC members are unable even to agree on lower production quotas, let alone to make them stick. As prices continue their decline, all net importers of energy (the United States, Europe, Japan, and most developing countries) will experience the equivalent of a tax cut. The same amount of work effort keeps the worker's house warmer in the winter and cooler in the summer and propels his car or recreational vehicle farther. The incentive to work and produce increases.

The road to growth is not without danger. Specific areas to watch include efforts to restrict trade; federal, state, and local tax increases; foreign government defaults; and foreign tax increases.

The meeting last fall of the nations who are party to the General Agreement on Tariffs and Trade could have provided a counterpoint to fend off growing protectionist pressures in the United States and abroad. The results, however, were quite different. Open warfare between the United States and Europe over agricultural subsidies was narrowly avoided at the meeting, but only because the United States backed off. The Europeans refused to discuss the nettlesome issue of agricultural subsidies or even to agree to future meetings to discuss their elimination. And they disavowed the final communiqué's commitment to resist new trade restrictions.

As a result, the GATT meeting's failure now threatens to become a rallying point for those who want a shoot-out over trade policy. Upon his return from the meeting, Senator Jesse Helms, among others, advocated countering the Europeans by releasing US surpluses of dairy products into world markets and stepping up export credits and other export subsidies for American agricultural products.

The sentiment for protectionism is also evident from the local-content amendment attached to the gasoline tax/highway bill passed in December. This amendment requires that materials used in the construction or repairs of highways and bridges be American-made when local or state governments so order. Such a requirement breaks the spirit, if not the letter, of the international trade agreements embodied in the GATT and sets a nasty precedent for US policy. The introduction in both houses of Congress of "domestic content" legislation, which would require foreign and domestic automakers to use specific percentages of US parts and labor in vehicles sold in the United States, provides further evidence of protectionist feeling in the Congress.



The apparent movement toward higher federal tax rates at the very time the economy turns toward growth brings into question the overall strength of the recovery. Ironically, the Social Security tax increases scheduled to begin in 1984, now sailing through Congress, improve the outlook for 1983. Just as lower tax rates in 1983 created incentives to postpone economic activity in 1982, higher Social Security taxes in 1984 will create incentives to shift production into 1983. But they will diminish growth in 1984 and beyond.

Tax increases at the state and local level also bode ill for the economy. Faced with a recession-induced decline in tax revenues, state after state has been raising tax rates. During 1982, for example, 21 states raised various taxes an estimated $2.93 billion. Only eight states reduced taxes by a total of just $50 million. Taken together, these tax changes are expected to increase state and local tax revenues for all 50 states by 1.2 percent.

Even such venerable low-tax states as New Hampshire and Florida joined the tax-increasing movement. Florida, for example, increased its sales tax a full percentage point, to 5 percent, though this move is supposed to allow local governments to reduce property taxes. High-tax states, including Michigan, Ohio, and Wisconsin, also were among the big tax increasers. In 1982 Ohio increased its top marginal personal income tax rate to 6.25 percent from 3.5 percent. Combined with increases in its corporate income and sales taxes, Ohio expects to raise $544 million. That follows $1.3 billion in tax increases during 1981.

Pressures to raise taxes during 1983 are on the rise. Large tax increases have been passed in New York City, Connecticut, New Jersey, and Indiana, while budgetary problems in California have led to enactment of a "stand-by" sales tax increase.

The danger of massive government defaults also dogs the outlook. From an economic point of view, the concerns are probably overstated. The capital of those banks that lent big to Mexico, Brazil, Argentina, and Eastern Europe et al. has been impaired already. What remains is simply accounting for the loss.

The fall in oil prices also will reduce the risk of massive default. To be sure, falling oil prices have impaired Mexico's ability to repay its loans. But the overriding focus on Mexico and other oil producers ignores the part of the United Nations that is not a member of the minority caucus known as OPEC. For every Mexico, there is a Brazil; for every Houston, a Detroit; for every Exxon, an International Harvester.

Absent a change in oil output, each oil-exporting country's loss is offset by an oil-importing country's gain. Mexico's oil exports of 1.5 million barrels a day, for example, are roughly equivalent to Brazil's oil imports. Holding output constant, only the distribution of wealth changes with a decline in the price of oil.

The breakdown of the OPEC cartel, however, suggests that oil output will increase. Let there be no mistake about it, a fall in the price of oil accompanied by an increase in oil production increases the total wealth—and therefore the strength—of the

financial system.

Moreover, even the distributional effects of the decline in oil prices favor banks during the transition period. Of the seven nations with the largest net debt to banks—Argentina, Brazil, Chile, Mexico, Peru, the Philippines, and South Korea—six are oil importers whose creditworthiness will be enhanced by a decline in oil prices.

The real danger is that foreign government credits will become the basis of another inflationary surge. Fear of the default is being used to prompt the US and other governments to increase the monies available to bail out these governments. Agreement has been reached to increase the capital base of the International Monetary Fund by 50 percent through increased member quotas. The money will be used to help those countries most reckless in their own affairs. Creation of a superfund would similarly reward countries for committing the last act of folly in order to qualify for the concessionary terms of a new loan. Congress will soon be deciding these issues.

Elsewhere in the world, fiscal policy is detracting from prospects for growth. In Germany, where unemployment last year exceeded 2 million for the first time since 1954, the government of Helmut Kohl raised the value added tax 1 percentage point, to 14 percent, for most products and to 7 percent from 6.5 percent on groceries, newspapers, magazines, and professional services. The tax increase will be effective in July. The goal is to narrow Germany's budget deficit; the result will be to increase its unemployment rate and social unrest. Tax rates in France also have gone up.

Meanwhile, the debt-servicing problems of many developing countries are opening the door for the International Monetary Fund's standard austerity package of currency devaluation, higher tax rates, and cutbacks in government spending. Implementation of such programs in Mexico, Brazil, Argentina and other countries will postpone recovery in these countries, as well.

Increases in the stock market indices in the eight major industrial countries—Canada, France, Germany, Italy, Japan, the Netherlands, Switzerland, and the United Kingdom—indicate that in spite of these tax increases, economic recovery will permeate these economies. Nonetheless, economic recovery in the United States will be dampened by the stagnation that now grips the rest of the world.

The failure of the GATT meeting, the financial problems of the developing countries, and continued high unemployment and slow economic growth in Europe and Japan seem to have provided the catalyst for serious consideration of a new monetary accord. In a speech before the GATT conference, French Foreign Trade Minister Michel Jobert questioned the value of the session without discussions of the international monetary situation. "It is paradoxical to concentrate on current trade tensions, while the real problems result from an unprecedented crisis in production," said Jobert. The source of these troubles was not the trading system, but "uncertainty provoked by erratic and incessant fluctuations in currency values."

Concerns over the financial problems of developing countries and the worldwide recession have led Felix G. Rohatyn—chairman of New York's Municipal Assistance Corporation, investment banker, and leading intellectual for the Democratic left—to nearly the same conclusion. Wrote Rohatyn in the December 5 edition of the *New York Times Magazine*:

For 25 years after World War II the international monetary system functioned as a result of the Bretton Woods agreements of 1944, which produced extraordinary growth and wealth throughout the world. Because it posed many problems, we have replaced this international system based on fixed exchange rates with a system based on floating rates, which poses even greater problems. The wild fluctuations in foreign exchange rates, speculative raids on individual currencies, the uncontrolled growth of the Eurodollar market—all have contributed to worldwide inflation and destabilization. Cooperation among America, Japan and Western Europe in an effort to synchronize economic policies geared to sound growth is now vital.

Against this backdrop, Treasury Secretary Donald Regan's call for discussions on stabilizing the international financial system signals a potential breakthrough in US international monetary policy. Reportedly, the US government is willing to consider all options, *from a return to a gold standard* to continuation of the present system.

A weakened OPEC can only add impetus toward a new international monetary system. Part of Regan's original support for the strong-dollar policy of the last two years was that an appreciating currency would lower the cost of raw-material imports, including oil. His comments were prescient. In the intervening two years, the foreign exchange value of the dollar has climbed 36.4 percent, commodity prices have fallen 20.9 percent, and OPEC's power over oil prices has been all but vanquished.

Though the chances of attaining a new international monetary agreement within the next year must be rated low, the broaching of the subject in advance of the 1984 elections bodes well for the outlook. Reinstatement of a system of fixed exchange rates inevitably will require institutionalization of a price rule. One of the key issues in restoring fixity is determination of which country intervenes in the event of divergence in the value of their currencies. Another issue is how to stabilize the price level throughout the monetary system. If the United States were to join the European Monetary System, the intervention issue would be settled by the complex calculations that govern that currency bloc. But price stability would not be guaranteed; under such a system, the rate of inflation would be determined by the weighted average of all participating countries.

Traditionally, price stability for the overall system has been warranted by using a commodity standard such as gold as a guide to monetary policy. Under such a system, if currency values diverge, the country with either a rising or falling nominal price level in terms of the commodity is required to intervene.

It is hard to overestimate the power of a well-conceived international monetary system to propel the world economy out of its current slump. Restoration of a stable price environment, both through time and across countries, would ignite a second historic rally in long-term bond markets. Moreover, by increasing investment horizons in both dimensions, such a change would launch a capital spending boom the likes of which would rival the experiences of the mid-1960s. (From 1964 to 1966, nonresidential fixed investment in constant dollars grew at an average annual rate of 13 percent.)

Thus, in spite of potential setbacks, 1983 appears to be the year a sustainable recovery will begin. The groundwork for a supply-side boom is in place. While the first year may produce a slightly slower-than-normal recovery, the distribution of potential growth patterns is skewed to the high end.

Recovery would serve to reinforce President Reagan's commitment to his program for economic growth. Good economic policies that had been implemented poorly, and with excessive slowness, are finally coming into existence. ◻

Arthur Laffer is a professor of economics at the University of Southern California and a leading theorist of supply-side economics.

Freedom's Future

In preparing this special 15th anniversary issue, we contacted several of REASON's long-time contributors, at home and abroad. We asked each of them to reflect on the gains and losses for personal and economic freedom in their part of the world over the 15 years since REASON was founded and, in that context, to speculate on the prospects for liberty over the next 15 years. Here is a selection of the results.

FIFTEEN Years of Reason

BRITAIN

EBEN WILSON

Instinct for Freedom

If I wrote that "there is a fundamental liberty about life in Britain which is not easily found elsewhere," I might be accused of typical British arrogance. These words, however, are those of a German—Ralf Dahrendorf, director of the London School of Economics.

It is true to say that in Britain there is a traditional gut feeling that liberty is something one has, whereas in the United States, liberty is more of an intellectual ideal for which one strives. Unfortunately, complacency born of gut feelings like the Britons' is probably our greatest enemy. And the danger is magnified, now that contemporary Britain is in a state of fundamental change. Within our political and social institutions, old class rivalries are being replaced by a fierce ideological battle within the middle class.

Collectivist and egalitarian dogma forms the basic beliefs of a new college-educated "hard left" that has infiltrated the traditionally class-based Labour Party. The intolerance of compromise among these new ideologues is matched only by their relentless determination to infiltrate the moribund democracy of the Labour Party's grass roots.

On the other hand, the intellectual vigor of the free market's proponents has never been greater. The Institute of Economic Affairs, the Centre for Policy Studies, and the Adam Smith Institute, among others, catalyzed by Margaret Thatcher's tenancy of 10 Downing Street, are clearly gaining audience in both the bureaucracy and the House of Commons.

The first approximation to the truth, then, is that a polarized parliament will be the forum that defines the boundaries of our freedom over the next decade. Greater polarization of politics will at least give vent to the arguments for and against collectivist public policy. One has to remember that Britain starts from the edge of no return with fully half of our economic "freedom" firmly in the hands of government. At this level of realpolitik, I am optimistic. There have been signs: The Conservative cabinet recently had a genuine debate about what Britain should do with its welfare state. And, more recently, the abolition of one entire tier of local government has been proposed. Such perspectives were unthinkable four years ago.

Economically, however, I am pessimistic. Our "entitlement" programs—national health, social security, index-linked pensions—have a momentum of their own, one that you in America know only too well. It has taken four years, at the cost of enormous political outcry from the vested interests, for Mrs. Thatcher's government to halt the growth in government spending, let alone cut it. And shortly beyond the decade ahead, the demographic proportion of old people to working taxpayers becomes frightening. If that problem hits us before a solution has been agreed upon, the prospects for our

economic liberties are grim.

The second approximation to the truth requires me to don the traditional mantle of complacency and arrogance. The British people do have an instinct for their freedoms. We do not, for example, have identification cards like our continental partners. We do not even need to drive our cars with a license in our pockets. We are not submerged in petty ordinances. Most of our institutions are self-regulating without government fiat and rules to constrain them. And it is still possible, in the provinces, to cash a check without a card guaranteeing your credit. I have a feeling that our locking plate in any slip away from liberty still remains our underlying moral sense that men should be free to choose their own way in life, however much the welfare state may be whittling away at this rather yeoman sentiment.

I was home in Scotland at the New Year. A British people live there of a more practical sentiment than the English Britons, and I overheard two men in an exchange about the Falkland Islands. The first, a man of reason, declared that the principle of freedom of self-determination was upheld there. The second—also, I think, a man of reason, replied tautologically, "C'mon, man, let's face it—they got thumped. People should'na tell others how they should run their lives."

I see more hope than despair for Britain in the next decade. ◻

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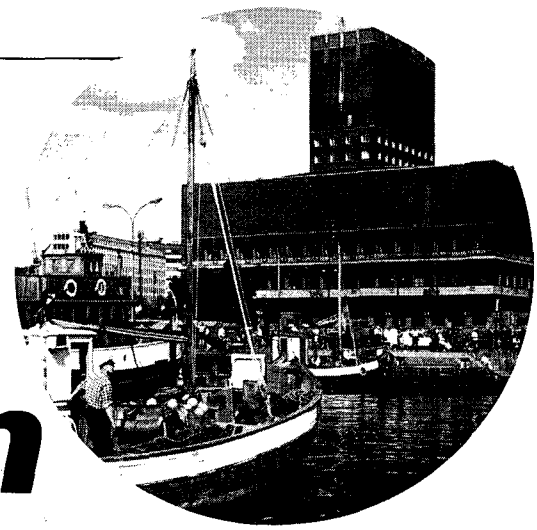
SCANDINAVIA

OLE-JACOB HOFF

Quiet Revolution



My assignment here is a tough one: "to assess the trends for and against personal and economic freedom in Scandinavia over the next decade or so." Tough not only because these trends run both ways but because freedom is not a fixed Utopia to be achieved by a doctrinaire program—it is only the elusive condition of absence of coercion. We who love liberty dream of a world in which free men, acting in a free market, will put a premium on rational behavior, mutual decency, and innovative action, thus making progress possible and civilization flourish.

This dream has never been fulfilled, but the paradox is that it is an indestructible reality; it reaches the incandescence of dissidence and revolt under conditions of tyranny, when liberty is suppressed. The trouble in Scandinavia, as in many other areas, is that most of us have lived in a limbo between tyranny and freedom, in the mixed economy and the welfare state, subject to numerous restraints and gentle coercion—and, for many people, the dream was blurred. Freedom was no longer a priority. It became but one of many attractions served on the platter of collectivist programs, almost every one of which called for the government to take a larger hand in economic decisions and expand collective power at the expense of individual freedom.

The planners didn't put it that way, of course. They just promised Cornucopia in return for "a little authority" to make us fit into their mathematical "models" of the economy. But now the models do not work as they should; even in the much-touted welfare economies of Scandinavia there is something rotten. And that's the good news: corresponding to this decay is a breakdown of illusions about statism and socialism.

Not that the planners openly admit their glaring inability to create economic growth. Instead, they plead for "crisis understanding" in Norway and "crisis consciousness" in Sweden. In both countries they demand wage restraint. Rising prices are eroding welfare benefits, and in Sweden and Denmark, politicians dare no longer "guarantee" that old-age pensions will be inflation-proof. In Norway, the proportionately huge income from North Sea oil still permits politicians to indulge in subsidization and welfare spending with a spirit of *après nous le déluge.* But their fate is tied to the price of oil, and they're sunk if it falls below $20 a barrel.

To people at large, all of this is both frightening and infuriating. They see it as a breach of the simple promise of security implicit in the very meaning of *welfare state* for which they have let themselves be taxed and taxed and taxed. But as taxpayers, they now hear that they may not get back their money's worth.

Hard as it may be to assess the political effect of this fear and fury, it is fair to say that it is serious and will be a lasting one. The state is no longer accepted as a benign Big Brother but more and more regarded as "that fictitious entity by which everyone seeks to live at the expense of everyone else," as Frédéric Bastiat put it.

The change of climate is patent: tax evasion is on the increase, the underground economy is expanding, and restrictions are being snubbed ever more openly. "Increasing lawlessness" the government calls it; but it isn't—it's just a quiet revolution signaling a departure from the simple trust that the law-abiding Scandinavian citizens traditionally have put in their governments.

In the wake of this departure, politicians feel very unsure. Understandably so. Their promise of free lunches was their trump card, but they have lost it—the game in the political arena is now a different one. They feel the way the emperor must have felt when he was revealed to be without clothes.

Photograph courtesy Norwegian National Tourist Office

Indeed, the Scandinavians are losing their innocence. And for the next decade or two, I see no return to the naive faith, which has prevailed since World War II, in the benevolence of the state. The lesson is valuable, no less so for being learned the hard way. In cynicism there is hope.

So far, so good the news. But even if coercion is seen to fail, freedom is not necessarily seen to work. That's the bad news. Scandinavians still cringe at the thought of a consistent market economy, and they still seek solutions through public paternalism or state corporatism. The *dirigistes* still dominate, even on the political right, by raising a formidable smokescreen of excuses. They are solidly supported by the vested interests that have grown up around the welfare state and are ferociously battling to retain their privileges.

In these quarters, it is solemnly maintained that the recession is evidence of the failure of capitalism—that rising unemployment is caused by monetarism, inflation by US interest rates, and economic stagnation by the inefficiency of private enterprise. Dubious arguments, to be sure, but they can fool quite a few people for quite some time.

Furthermore, the thesis is being advanced that the welfare state can increase employment and income by expanding the public sector, because then, at last, resources will be used for a real "egalitarian liberation," not for "repressive" private profit. This king of Orwellian Newspeak will not pass the test of the economic market, but its defeat in the political market at which it is aimed is not a foregone conclusion. In fact, Herr Olof Palme won the elections in Sweden with it and is using the predatory means of the state to realize his rhetoric. And he is less likely than Monsieur Francois Mitterrand to back down before he loses power.

Which trend will prevail? The collectivist one heading for increasing coercion or the individualist one heading for greater freedom? Neither one, probably—at least not unequivocally. But the fact is, the relentless march into socialism has been stopped, and it cannot be resumed as if nothing has happened. Meanwhile, time marches on; the market economy—impure as it is—still functions and will provide the economic and technological innovation that will shape our future and open new areas of freedom.

That, I suspect, is what always has happened: freedom is chased by suppression; individual enterprise is hunted by collectivist coercion. Freedom may never be rewarded a decisive victory, but—being the mother of progress—how can it in the long run fail? ◻

Ole-Jacob Hoff is REASON's *foreign correspondent in Norway. He is a former editor of* Farmand *and is now a free-lance writer.*

WEST GERMANY

H. JOACHIM MAITRE

"Never Again"

Germans have a low threshold of public anxiety. Few nations are so given to worrying about themselves, their image in the world, their future, the economy, and the big issues such as war and peace, security and stability, and—last but not least— freedom and democracy.

Are we Germans a nation of pessimists and hand-wringers? A renowned commentator recently asked several foreign correspondents in Bonn this question. The answer was a tactfully qualified yes.

Things that older democracies take almost in stride—inflation, unemployment, and terrorism, for example—ring alarm bells much earlier in Germany, even though the Germans' record of coping well with all these is quite good. The reason, of course, is the shadow of history that hangs so heavily over the public consciousness. Germans ask serious questions about whether Bonn could become another Weimar.

Fifty years ago, Adolf Hitler took the reins of Germany. The lethal results are still there for the whole world to see: a divided Germany; a Europe split right down the middle, with the Communist East challenging the West and the entire free world, both ideologically and militarily.

Having triggered the National Socialist catastrophe in 1933, Germans today seem willing to come to terms with their past. On the occasion of the 50th anniversary of Hitler's coming to power, there abound solemn pledges that it will not happen again.

Of course it will not happen again, for history does not repeat itself. But the pledges of "never again"—so freely issued throughout the whole of Germany, in Frankfurt-am-Main as well as in Frankfurt-an-der-Oder—conveniently ignore that roughly 17 million Germans were simply thrown from one dictatorship into another in 1945.

To these Germans—the citizens of the German Democratic Republic—freedom is but a dream. They have grounds to feel betrayed by the Federal Republic's Ostpolitik, which has brought them no increase in personal freedom and little relief from socialism's ever-present economic gloom. But now the vast majority of East Germans, virtually all of them within reach of West German radio and television, are encouraged by the new government in Bonn. While not renouncing Ostpolitik, Helmut Kohl's administration is poised to end the period of one-sided deals with East Germany, pressing instead for a relaxation of internal suppression in exchange for the trade privileges so vital to the East's socialist economy.

Chancellor Kohl has reintroduced into the political

Photograph courtesy German National Tourist Office

vocabulary two words that have not been heard in West Germany for some time: *Westpolitik* and *Vaterland.* The first shows the Christian Democratic Union and Christian Socialist Union's complete commitment to the Western alliance; the second, their open patriotism, their belief in antique qualities, their refusal to accept the division of Germany.

After more than 10 years of Ostpolitik—resulting in renewed Soviet resolve and increasing doubts in Western Europe about NATO's effectiveness—the new German government will make a conscious effort to improve relations with Washington. Without the protection provided by the United States during the past 30 years, West Germany would not be what it is today, Helmut Kohl admits, adding that Germans want friendship and partnership—but not dependence. There will be no slavish following of US policy, the new government vows, although common values will be stressed.

The economy will prove to be West Germany's prime test case for freedom. Given the slump created by the Social Democrats' interventionist policies, the ideals and realities of the free market will have to be revived. The country's economic miracle in the '50s, after all, would have been unthinkable without the Adenauer administration's bold moves to lift postwar controls on the market economy. The country's economic decline during 13 years of Social Democratic rule is likewise attributable to Chancellor Brandt's open hostility toward free enterprise. And in his final year in the chancellor's seat, Helmut Schmidt—chronically prone to lecturing leaders of other Western nations on the virtues of a mixed economy—felt forced to abandon what was left in him of Adam Smith, blaming West Germany's recession on a global trend.

To rescue the economy from the doldrums, Bonn will have to set conditions aimed at freeing private enterprise from the usual assortment of semisocialist manacles—such as punitive taxes and compulsory collective bargaining with unions, which have been spoiled rotten in the recent past. An early economic recovery will provide the key to the Germans' political future—throughout postwar history, West Germany's political stability has been based on its strong economy.

"Produce the politicians capable of guaranteeing the political integrity and stability vital for democracy." That was exactly the charge brought against German politicians in the late '20s, when Hitler appeared on the horizon. The charge may be as unjust today as it was then, but the question won't disappear: Is Bonn, after all, another Weimar? Only time can tell. ◻

H. Joachim Maître is REASON*'s foreign correspondent in West Germany. He is a vice-president of Axel Springer Publications.*

UNITED STATES
JOHN HOSPERS
A Narrow Slot

When Albert Jay Nock wrote his splendid libertarian books in the 1930s and '40s, you could almost count the full-fledged champions of liberty in America on one hand. But he lived a generation before his time. His eloquence was largely wasted on an audience not yet ready to receive his message. The prospects for liberty then, in the heyday of the New Deal, must have seemed enormously discouraging.

Then came Ayn Rand, who more than anyone else wrought a change in the thinking of thousands, if not millions, of the reading public. *Atlas Shrugged*, more than any other work, roused countless readers from their liberal-statist dogmatic slumbers and turned the thinking of readers in the 1960s completely around. *Capitalism* had been a dirty word for a generation, and now it became permissible, even fashionable, to use it again in tones other than of condemnation. Speakers and writers proudly proclaimed it, shouted it from the housetops, even wrote books defending it, in the name of both Rand's Objectivism and the Austrian school of economics. The works of Ludwig von Mises, after years of undeserved eclipse, began to be studied, though mostly outside colleges and universities. Academia to this day has ignored both Rand and von Mises, but in spite of this a systematic philosophy of liberty has made inroads in the thinking of many thousands of people.

By the time I wrote *Libertarianism* in 1971, there was already a considerable audience for these views. Only among academic colleagues was there scorn and contempt—"He's really gone off his rocker." By the time the Libertarian Party was formed in 1971, and later, when I became the party's first presidential candidate in 1972, there was still widespread ignorance of the libertarian position and the usual quota of contemptuous remarks. But audiences and interviewers sensed a totally fresh approach to social-political problems, and they were mostly willing and eager to listen to it.

Aside from the usual and predictable run of foolish questions—to which an answer was demanded in 30 seconds (such as, "What are you going to do with the poor—let them starve?")—there was also a growing attitude of receptivity, even probing inquiry and sometimes enthusiasm. It was an exhilarating experience to be part of this pioneer work.

In the ensuing years the tide grew. In 1972 the total audience, excluding radio and television, numbered thousands. By the time Ed Clark became the Libertarian Party's presidential candidate in 1980, it had become millions. Most of them didn't

Photograph courtesy Washington Convention and Visitors Association

follow the libertarian philosophy in every detail. Usually, they didn't understand all of it—a systematic body of doctrine is seldom totally understood by the majority—and some tried to reduce it all to a few cheap slogans incessantly repeated as a substitute for genuine thought. But by 1980 almost everyone had heard of libertarianism and knew that there was a new intellectual force abroad in the land that, like it or not, had to be reckoned with.

Since then, dozens of books have appeared defending laissez faire and the free market, and a smaller number on the philosophical underpinnings of the libertarian world view. If libertarianism fails to grow, it will not be for lack of books and magazines defending and explaining the free society. Partly as a result of libertarian inroads into popular thought, big government is treated with a new and widespread skepticism—even by those who want its benefits. And the "liberal" view—that you can solve any social problem by throwing government money at it—is already almost dead. As a philosophy, though not, unfortunately, as a practice, the New Deal itself is dead.

This is not to say that all is well, or even that the prospects for liberty are not somewhat disheartening. The academic profession is still controlled by New Dealers and a large variety of statists, teaching Marx and Keynes to their students as if these views had never been challenged and rigorously excluding from their ranks any new candidates who dare to hold nonstatist views. And the marketplace itself has been increasingly corrupted: business owners who used to make it on their own, launching an enterprise with their own money in the hope of success but also in fear of failure, have largely been replaced by business owners who find it easier and more secure—and, unfortunately, politically possible—to live off other people's money via government favors and subsidies. The business owners have been joined by union leaders and lobbyists and other pressure groups anxious to feed at the public trough, and in obedience to their whims, the members of Congress vote greater and greater appropriations in return for reelection. Meanwhile, to pay for all these giveaways, inflation grows and government deficits mount astronomically. In comparison with this horde of millions, the champions of economic liberty, even though they have grown a hundredfold in the last decade, still seem like voices crying in the wilderness.

During the presidential primary of 1976, I was visiting Guatemala to speak at the Universidad Francisco Marroquin, the only university in the world dedicated to the work of Ludwig von Mises. "It's a pity that Ford got the nomination," one of my hosts commented. "He got it because they thought that Ford, the incumbent, would be more likely to win in November. But probably they were wrong, and Reagan would be more likely to win. Now, if Reagan should become president in 1980, it will probably be too late for the American economy." I have thought many times during the intervening years that my Guatemalan hosts were probably right.

When Reagan entered the White House in 1981, the mess he inherited was almost past redemption: an inflation rate of 20 percent, a national debt of nearly one trillion dollars (and doubling every decade), and constantly rising deficits—to be paid for either by inflating the currency directly or by borrowing from the marketplace, thus driving interest rates up so abruptly as to stifle business loans and precipitate a nationwide depression. Reagan's $35-billion budget decrease (or, rather, cut in Carter's scheduled *increase*) was so small compared with the real need as to be almost cosmetic. Yet, in order to get even that small cut through Congress, Reagan had to make deals with senators—"I'll uphold your sugar subsidy if you vote for my bill"—that set the free market back even further. The effect of the cut was about as noticeable as a band-aid on a broken water main. The costs of government kept rising, and the restoration of a free market receded still further.

The principles of liberty may have become more familiar in the marketplace of ideas, and certainly the president is not unacquainted with them, but they have scarcely penetrated the halls of Congress, where budget decisions are made. And Reagan, no matter how strongly he is convinced of something, will not propose any measure unless he believes it has a considerable chance of success. If he had advocated in the first year the $300-billion tax cut that some libertarians chided him for not putting forth, he would not only have been ruinously defeated; he would have been flayed alive by press and public, perhaps even impeached or assassinated. The danger now is that the public, never long on patience, will demand a quick fix. Once that is not forthcoming, they will swing in the opposite direction and elect in 1984 someone who is long on spending and short on elementary economics.

The voting public, meanwhile, is abysmally ignorant of elementary economics. Reagan, moreover, failed to inform them how deep-seated the problem was, how far down the road to national ruin the country had traveled, and why it would take both time and a discomfiting period of readjustment for the situation to right itself and for the market and prosperity to be restored. He spoke to the public as if a few quick touches of his golden hand would turn inflation around and return the nation to solvency. The public was only too glad to believe him. But when it didn't happen, the murmurs against him grew into a clamor.

To make matters worse, Reagan delivered himself of much free-market rhetoric without deeds to match the words. The public then turned against the words, presumably concluding that if this—that is, high unemployment and high interest rates—is the free market, we want no more of it. In a recent national poll, the majority of voters wanted (1) lower taxes, (2) no inflation, and (3) more public benefits. There is no way in the world Reagan or anyone else could square this circle. No libertarian could do it either—what could a libertarian president do, given the present complexion of Congress, in the present dismal situation? When you have painted yourself into a corner, you can't sprout wings and fly.

If Reagan had cut the budget to the bone, including welfare and entitlement programs (which would have been impossible anyway, thanks to Congress), there would have been much suffering, but prosperity could have returned within a year. As F. A. Hayek has said, such reversals have to be made quickly and decisively—if you try to do them slowly, the opposition gathers its forces and negates them again. Apparently Reagan never seriously considered such drastic moves. By picking away at the budget here and there, he succeeded only in alienating each special-interest group whose ox he gored.

The media, totally unsympathetic to Reagan's aims, never asked questions like, "But if we put people back to work with government spending programs, won't this involve the massive creation of new money, and more inflation, which in the end would hurt everyone?" or, "You speak of people who are hurt when government programs are cut. But government programs are paid by taxpayers, and won't they be helped by every saving that's passed along to them? If a father can't make his car payments, for example, because he—rather than the government—has to pay for his son's college tuition, what of the taxpayers who have *no* cars at all because they have to help pay for that tuition?" Such questions might have set public thinking on the road to economic sanity. But such thoughts were never raised by the self-appointed guardians and molders of American opinion. The average citizen, reading little if anything, hearing news chiefly from television, continued to wallow in ignorance. And the nation sped on toward economic catastrophe.

The end result is that there are no good options left. If the government tries to solve the unemployment problem with more federal programs, inflation will shoot up and everyone's purchases will cost more. On the other hand, if it bites the bullet too hard, sitting absolutely tight on the money supply with no real decline in public spending, interest rates will rise, unemployment will increase, and the economy will continue to stagnate.

There is, I think, only a very narrow slot between these two courses that would enable us to avoid either runaway inflation or deflationary depression. Whether Reagan, or Paul Volcker at the Federal Reserve, is up to this job of fine tuning is dubious. As Reagan himself said in a recent but little-noticed speech in Los Angeles, "Massive deficits are now built into the budget. It would be counter-productive to raise taxes, and we can't touch the entitlement programs. The only hope of balancing the budget is to stimulate business recovery."

If this were done, productivity would rise and more jobs would be created, but at the moment this alternative is politically impossible: Reagan is already known as the president of the rich. Corporations' annual profits are falsely but popularly believed to exceed 30 percent of revenues. All the current agitation is for "giving more to the poor," but whatever the merits of welfare benefits, you don't get industrial expansion or new jobs or plentiful consumer goods by increasing them.

There is only one area, it would appear, in which genuine progress is being made. The best man in the cabinet, Secretary of the Interior James Watt, is opening up large tracts of government lands and allowing enterprising people to lease these lands for the mining of gold and other precious metals. The metals are there—we don't *need* to be dependent for, say, chrome on Russia or Zimbabwe.

And Watt wants to do more: sell government lands, which the government is unproductively maintaining—or failing to maintain—at taxpayers' expense, to private individuals or corporations who would develop them—or not develop them—productively and profitably. But all this has to be done very quietly. At the slightest sign that a single acre of federal lands, however useless, may be sold off (one quick and clear way to ease the national debt), environmentalists and commentators rise up crying for Watt's dismissal and Reagan's impeachment as a traitor to his country.

What, then, are the prospects for liberty? The forces of big government, which continue on the whole to prevail in Washington, are pitted against the small but growing forces of liberty and the free market. Most of the nations of Western Europe, as well as Canada under Trudeau, have probably passed the point of no return. But there is still hope for the United States. Almost all the younger men in advisory positions in the administration—underlings thus far—are advocates of the free market. Some of them favor a return to gold as money, and some (almost unbelievable but true) favor the abolition of the Federal Reserve. But the older men, those long in the Establishment, continue to steer the ship of state toward the fatal reefs of doubt and insolvency. At this point no one can predict with any accuracy which side will win.

It would be consoling to say, "Liberty is on the march, and nothing can stop it." But the forces of statism are on the march too, and thus far *they* have not been stopped. Both sides are equally determined. The course of liberty is the only long-term solution, but the opposing course of statism is deeply entrenched. It is now a race against time. ◻

Contributing Editor John Hospers is a professor of philosophy at the University of Southern California. He was the Libertarian Party presidential candidate in 1972 and is the author of Libertarianism, *as well as several philosophy textbooks.*

Honorable Profits

(Continued from p. 33)

The business community's lack of concern with its own best interests is evidenced, for example, by the practices of Mobil Oil, IBM, Xerox, and Texaco when it comes to the investments they make apart from direct enterprise. Such corporations repeatedly support artistic, scientific, educational, and related nonprofit endeavors that are unambiguously hostile to capitalism. Movies, plays, television programs, foundation projects, and universities receive funds from these corporations. Yet, evidence indicates that most of these directly or indirectly attack the very principles that make corporate business possible.

A few years back, to offer an illustration, there was the motion picture *Heaven Can Wait.* The only villain in the story "happened" to be a capitalist who supported free enterprise. The protagonist counted among his virtues his refusal to take the free-enterprise approach seriously. Innumerable television scripts equivocate between wishing to make a profit and criminal motivation. Virtually every major crime, from murder to rape, is treated in TV dramas and pulp novels as a necessary consequence of people trying to prosper in life. The implied indictment of human nature itself is staggering. Still, sponsors continue to support such programming. The business community also continues to sanction hundreds of magazines and newspapers whose editorial stance toward the capitalist system is one of hostility. And this is the very system, of course, that keeps sponsors solvent and the press free from government dependence—unlike in socialist societies.

So, Marx was wrong—business folks do not always know or pursue their interests. There is no reason to believe that the so-called bourgeois class takes any better care of itself, of capitalism, of its own alleged base of operation, than others would. This is not surprising, but it *is* a pity.

Capitalism, the commercial life that it fosters, the general freedom that accompanies it, and the prosperity that results—capitalists need apologize for none of this. The moral support for their system is that within it, the pursuit of happiness by human individuals is made possible to a far greater extent than in the other systems under which the peoples of the world have lived and do live. Indeed, capitalism's fundamental humanitarianism, as humanitarianism should be understood, must be stressed.

The point here is not to appear kind and altruistic! It would be dishonest to advocate a political and economic system simply on grounds that it benefits others. No, capitalism needs to be supported unapologetically as a system in which one's own well being has the best chance to flourish. Unless this hearty support is given more and more, the morality of self-sacrifice, of altruism, of human self-debasement and servility, will triumph; and along with it, all types of statism—the systematic threat to human liberty everywhere.

Turning away from the moral issues isn't an answer, contrary to the claims of some defenders of capitalism throughout the system's history. There is too much evidence of the reality of moral concerns in our day-to-day endeavors. Instead of renouncing morality, defenders of capitalism must show that the basic values and virtues stressed in our moral climate are wrongheaded. Altruism alleges the supremacy of what should be simply one aspect of human concern—namely, the welfare of others. If this is recognized, the political and economic system that makes supreme the human individual—that is, capitalism—will emerge as demonstrably superior not only in practical but in ethical terms. ◻

Tibor Machan is a senior editor of REASON *and the author of* Human Rights and Human Liberties, *among other works.*

LOOKING BACK: Fifteen YEARS OF Reason

a REASON Retrospective

By Marty Zupan

Nurturing New Voices

"The great virtue of REASON," wrote Alan Reynolds in the July 1978 issue, "has been its willingness to open its pages to a reasonably broad variety of interpretations of applied libertarian thought and to serve as an entry point for new writers." Alan ought to know. He first published in REASON in July 1971, when he was working at J. C. Penney's and studying toward a master's degree in economics at Sacramento State College. His article was noticed, and by the end of that year he had been taken on by *National Review* as economics editor.

Alan has continued to write for REASON over the years, including a several-year stint as a Viewpoint columnist, where he delightfully debunked some of the economic nonsense about in the land. He moved on from *NR* to work as an economic analyst for several firms. He is now at Polyconomics with Jude Wanniski and has become one of the principal exponents of supply-side economics, appearing frequently on the editorial page of the *Wall Street Journal*. His latest contribution to REASON was "Honest Money" (Jan.).

Other writers, too, have gone on from an early debut in REASON. Paul Craig Roberts, another supply-sider who frequently graces the pages of the *Wall Street Journal*, first appeared in REASON in August 1973 with "The New Imperialists," which was reprinted in *Human Events*. He has contributed to REASON regularly over the years, on subjects ranging from Third World economic policies and the real cause of inflation to the energy crisis and Marxist thought. He served as assistant Treasury secretary in the first year of the Reagan administration and was interviewed in our pages in August 1982. His review of David Calleo's *Imperious Economy* is featured in this month's book section.

Several other REASON contributors signed on with the Reagan team in the hopes of effecting good things. John McClaughry, featured in our January 1976 Spotlight, first wrote for us in October of that year. He and Doug Bandow, who authored his first REASON article, "Barring Competition," in May 1980, worked on Reagan's domestic policy staff until it became clear that pragmatism was the order of the day. (Doug is now editor of, to paraphrase Johnny Carson, "another magazine." Actually, we're friendly—in fact, he's continued to write for REASON. You'll find his name on *Inquiry*'s masthead.)

Murray Weidenbaum appeared in REASON in October 1976 with "Fuel for Bureaucrats...Or People?"—an early case against federal subsidies for synfuels development. As Reagan's first chairman of the Council of Economic Advisers (CEA), Weidenbaum was a forceful advocate of deregulation. He revealed the difficulties facing reformers in a REASON interview in September 1981. And a present member of the CEA, William Niskanen, argued "The President Is Not Our Leader" back in January 1979.

Among other people picked up on early by REASON: In August 1978 we published an article by one Dr. W. Phillip Gramm, an economics professor at Texas A&M, who for the benefit of our readers punctured some common myths about "scarce resources." Phil Gramm just won reelection to Congress as a Republican after surviving as a Boll Weevil Democrat was proving difficult.

We've been publishing Bruce Bartlett since 1976. The author in 1981 of *Reaganomics*, Bruce is now deputy director of the Joint Economic Committee of Congress. Our July 1981 Spotlight featured Lewis Lehrman. He subsequently became well known when he ran (nearly successfully) for the governorship of New York on a slash-spending platform.

Finally, to return to Alan Reynolds's pat on our back for opening our pages

to unknowns, we're pleased that some of our writers have also blossomed in the world of journalism. Mike McMenamin, a Cleveland attorney whose first piece of journalism, "Milk, Money, and Monopoly," appeared in REASON in March 1976, has continued to expose political wrongs in our pages and has branched out to other magazines as well. His investigative article "Subverting the First Amendment" appeared in our January issue. Tom Hazlett first started popping up in REASON in 1976 also, and now his articles appear all over the place. Patrick Cox took over the Spotlight column in September 1980, the same issue in which he authored an investigative piece on the crushing of an individualist revolution in the New Hebrides. Like Tom, Patrick has a solid background in economics and has become one of our frequent and reliable journalists. He is also appearing regularly now in *USA Today*.

Unsung here, but not unappreciated, are all the other contributors to REASON over the years. Many of them are not writers by profession. Heaven knows they've not written for us for rich financial rewards. We've enjoyed working with them and bringing their labors of love to the REASON audience.

Keeping Ahead of the News

Favoring Free Flight

Back in September 1969, with "Fly the Frenzied Skies" by Bob Poole, REASON first made a case for deregulation of the airlines. Bob had long had an interest in aviation (his father was an engineer for Eastern Airlines) and had had occasion to see the stultifying effects of regulation (he'd seen

Eastern's request for a route from Florida to California turned down time and again by the Civil Aeronautics Board—keeping him from getting a free trip to Disneyland!—and had been following *Aviation Week*'s reports on CAB decisions). So he researched the issue for his 1969 article and continued to follow the halting moves toward deregulation in Trends. In January 1978 Michael McMenamin detailed for readers the surprising role of big-government Sen. Ted Kennedy in achieving deregulation. It took a whole decade, but deregulation came, and REASON has continued in Trends and articles ("Spreading Wings Across America" by Peter Samuel, Jan. 1982) to track the effects.

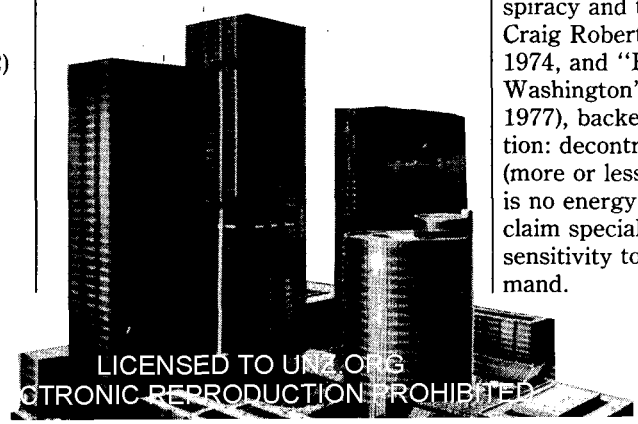
Delivering Electricity Jolts

One of the issues unique to REASON has been an exploration of the

possibility and desirability of competition among utilities. In June 1974 Bob Poole wrote a charming story, looking back from 1984, "How Free Enterprise Returned to the Electric Power Industry." When we learned that there actually are competing utilities in Lubbock, Texas, and other communities in the United States, we put a reporter onto the story. The result, "Two Utilities Are Better Than One" by Jan Bellamy in October 1981, won first place in the John Hancock Awards for Excellence. Today, nearly 10 years after our hopeful scenario for 1984, the idea of demonopolizing local utilities is being seriously considered by policymakers.

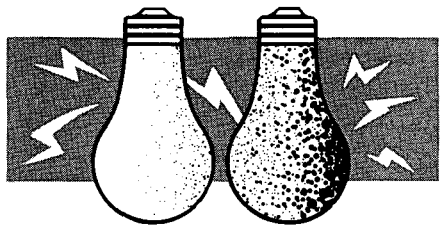
Mapping the Zoning Alternatives

When Chicago attorney Bernard Siegan (now a law professor at the University of San Diego) published *Land Use Without Zoning* in 1973, he



was a voice crying in the wilderness—almost. We'd started covering his research of nonzoning with a Trends item in March 1971. We interviewed Siegan in April 1973 and published "Houston Defies the Planners...and Thrives" by Dick Bjornseth in February 1978. Trends items have kept our readers abreast of court cases and further studies.

Lately, major media have awakened to the Houston scene—with, predictably, calls for changing the situation. But the case against zoning is persuasive, and as we note in this month's Trends, even a local politician has conceded that it would make sense to do away with the beast.



Flaying Power Politics

In another early issue—February 1971—REASON predicted shortages of oil and gas if government continued its long-standing intervention in the energy resources market. Government continued, and when the energy crisis hit, precipitated by the Arab oil embargo, we started publishing a steady stream of analyses (such as "Bureaucratic Conspiracy and the Energy Crisis" by Paul Craig Roberts and N. Van Cott, Dec. 1974, and "Energy Crisis: Made in Washington" by Alan Reynolds, March 1977), backed up by advice as to a solution: decontrol. Government finally did (more or less); and lo and behold, there is no energy crisis today. But we don't claim special powers of prediction—just sensitivity to the laws of supply and demand.

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Driving Home the People's Alternative

Already in "The Slum Beneath Boston" in February 1969, REASON was exposing the horrors of government-run, massively subsidized mass transit. In May 1982, Peter Samuel reported on the frightful decline of the New York subways and an economist's proposal to sell them off to private investors.

On a parallel track, we've reported over the years on what we in July 1980 dubbed "alternative transit: the people's answer to government boondoggles"—jitneys, cabs, etc. We started in February 1972 with Sandi Rosenbloom's "Taxis and Jitneys: The Case for Deregulation," which Milton Friedman later referred to in a *Newsweek* column. We kept it up with various Trends notes and articles over the years.

Major cities are finally seeing the wisdom of deregulating taxi service and giving jitneys a green light. And we were pleased to learn recently that REASON directly inspired former Seattle city council member Randy Revelle to push, successfully, for deregulation of that city's taxis.

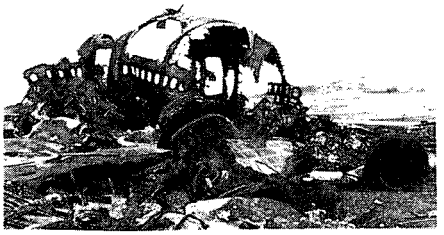
Fanning the Flames of Competition

Yes, Virginia, even fire fighting can be done privately, as we've noted since a very early—January 1971—Trends mention of the firm Rural/Metro in Scottsdale, Arizona. Editor Poole was so intrigued by it that he followed up with a full-blown article, "Fighting Fires for Profit," in May 1976—a story that led to *60 Minutes* coverage of Rural/Metro in 1978. When we discovered a new twist—*competing* fire-fighting firms serving the same area, near Grants Pass, Oregon—we got the scoop for "Feet to the Fire" by Gaines Smith, published in March.

Charting the Private Air Way

In "The Airport Crisis and How to Solve It" in April 1973, law professor Michael Levine argued the advantages of market pricing of airport landing slots. As a CAB official in the late '70s, Levine was an architect of that agency's deregulatory moves and proposed even more "radical" reforms to bring not just freedom but pricing into the picture. The best is yet to be, however. (Today Levine is president of a deregulation-spawned airline—New York Air.)

In Trends ranging from "Ending the Aviation Rip-Off" (Dec. 1973) to "Airports—Cutting the Apron Strings" (July 1982), REASON has been calling for an end to government subsidies to and protection of the aviation industry. In a major article in January 1979—"Is This



Any Way to Run an Air Way?"—Editor Poole recounted how government got into the business of air traffic control and aviation safety and proceeded to show how air travelers would be better served were the private sector to handle these matters.

Following Private Police

Even security, we've noted over the years, can be and is provided by private firms. Back in 1972 we published "Rent-a-Sheriff" by noted political scientist and author James Q. Wilson. In an August 1979 article, Christine Dorffi reported on a private service in San Francisco that offers protection where the municipal force doesn't meet the citizens' needs. And in an investigative piece last November, "Cops, Inc.," reporter Tad Gage took readers to Reminderville, Ohio, to see what happened when the town decided to contract out provision of policing services to a private firm.

Plumbing the Sea Treaty

We've been exposing the insidious common-property premise of the United Nations Law of the Sea Treaty since 1969. In December of that year, in his second contribution to REASON, Bob Poole penned "The Wave of the Future, the Future of Waves." The article was reprinted the next year in the *Freeman*. With Trends notes and editorials over the years, we've kept our readers aware of the serious issues involved. Most recently, in "Sink the Floating OPEC" in October 1982, Doug Bandow, who had been a US representative to the Third UN Conference on the treaty, explained the Reagan administration's opposition to it.

Expanding the Space Horizon

Long before the *Percheron* exploded over the Gulf of Mexico and the idea of private space entrepreneurs burst upon the public consciousness, REASON was covering private space developments. In July 1974 we ran our first major article, "Free Space" by Paul Siegler, admonishing government to allow the private sector a free hand. In April 1979 we put out a special issue, "Goodbye, Spaceship Earth," applauding the resource and human opportunities opened up by space development. The issue included an article by Gary Hudson, who was later instrumental in development of the *Percheron*.

In July 1979 Bob Poole investigated the true story behind the German space firm OTRAG. And in November 1981 James Bennett gave the lowdown on "The Second Space Race." As we headlined a Trends item in December 1982, "Adam Smith Phone Home."

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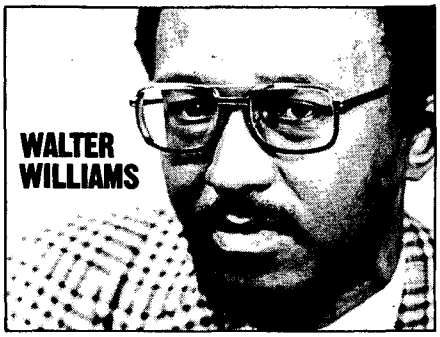
Quotes of Note

"The very existence of the FCC, with its oddly antidemocratic compulsion to sanitize the air waves of the unequal, the unfair, and the impure—the very existence of this federal control commission discourages the idea of assigning keen, thoughtful people to say what they want to say. Unless, of course, you do it on the twin-pack basis, Shana Alexander and Jack Kilpatrick, so they can neutralize each other and everyone is reassured by the smell of Lysol."

—**Bill Monroe**,
"Unchain the Electronic Media," Feb. 1979

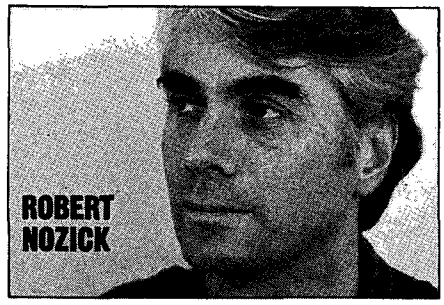
"I would guess that if we abolished the minimum wage law, reduced licensing restrictions, changed labor legislation, and reorganized the delivery of education, in 20 to 30 years hence there would be no 'Negro problem'—as there is no Japanese, Chinese, Jewish, or other earlier-immigrant problem. These people were able to start off poor and progress because they did not face the market restrictions that constitute Uncle Sam's apartheid."

—**Walter Williams**,
"The New Jim Crow Laws," Aug. 1978



"In retrospect, I see [my separation from *Human Events*] as symptomatic of that which has come to divide the conservative movement in the United States. Frank [Hanighen] and Henry [Regnery], in their separate ways, moved on to associate with the far right in the Republican Party. My position remained essentially 'libertarian,' though it is with great reluctance that I yield the old terminology of 'liberal' to the socialists. I was, and continue to be, strongly opposed to centralization of political power, thinking that this process will eventually destroy our federal republic, if it has not already done so. The vestment of power in an HEW is demonstrably bad, but its concentration in the Pentagon and CIA is worse because the authority is concealed and covertly exercised. Failure to check either extreme means continuous deficit financing and consequent inflation, which in time can be fatal to the free-enterprise system."

—**Felix Morley**,
"In the Course of Human Events," Feb. 1978



"In that setting *most* conducive to the free acceptance of socialist ideals [the Israeli kibbutzim], with the most attractive and respected socialist communities and the most receptive population, only nine percent (as a *generous* estimate) would choose to live that way. The prospects, therefore, are dim for interpersonal socialism's coming anywhere voluntarily. As Israel shows us, there won't be enough volunteers."

—**Robert Nozick**,
"Who Would Choose Socialism?" May 1978

"The irony is that, cogent as the original book was, [Henry] Hazlitt is still reduced to looking for hope in the future. But his time has not been wasted. His thinking has had a permeative effect; and when the ultimate inflationary crisis comes, it will be his disciples that pick up the pieces, as the disciples of Ludwig von Mises and the Austrian school did in West Germany in 1948."

—**John Chamberlain**,
Review of Economics in One Lesson, July 1980

"The SALT process,...rather than taking us away from war, entrenches our overseas commitments, locks us into increased defense expenditures, and assures that we will continue to face the Soviets in an atmosphere of tension, armed only with offensive capabilities, and with the growing threat that one side or the other will take the fatal misstep toward World War III."

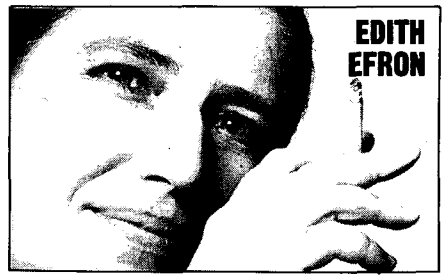
—**Rep. Ron Paul**,
"SALT-Free Defense," March 1980

"Capitalism has performed unprecedented feats in the production of material well-being, but economic performance by itself is not enough. Institutions that hope to survive in a society like ours have to be seen as possessing moral authority: their powers and their wealth must be accepted as legitimate in some moral and political sense."

—**Robert H. Bork**,
"Who Will Speak for Capitalism?" July 1979

"The incredible fact is that both newsmen and businessmen share the identical problem, the identical danger, the identical enemy—interference and control by the state—but do not seem to know it....What is not being grasped here by most members of either group is a particular principle: the fact that liberty and private property are inextricably linked—that one cannot exist without the other..., that intellectual and political freedom and capitalism are inextricably linked."

—**Edith Efron**,
"Free Minds and Free Markets," Aug. 1975



"'Industrial policy' really amounts to central planning in disguise. And central planning doesn't work because the central plan must inevitably run afoul of all the myriad small plans of individuals. So if the central plan is to be implemented, individuals 'have to be' prevented from carrying out their plans—whether they like it or not. That is why planned economies always turn into police states."

—**Tom Bethell**,
"Cooperation and Coercion," May 1982

"A free society would never ask its true citizens to think of what they could do for the state. It would always challenge us to do without the state—that ancient false promise, that venerable yoke."

—**Karl Hess**,
"Living in Freedom," May 1978

Inside Interviews

Ronald Reagan: "I believe the very heart and soul of conservatism is libertarianism. . . .[But] when we come down to government and what it should or should not do for the good of the people and for protecting us from each other, you do come into some grey areas, and I think here there will be disagreements between conservatives and libertarians." **(July 1975)**

RONALD REAGAN

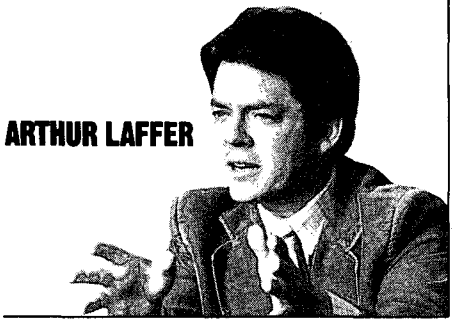
William Simon: "[The Federal Energy Administration] was proposed by President Nixon as a *temporary* agency, with a life of a year and a half, to take care of the energy crisis during the embargo—not knowing how long the embargo was going to last. One thing that that should teach us is that nothing is ever temporary in Washington and once created will just continue to grow and dominate the affairs of the citizens of this country." **(Feb. 1978)**

THOMAS SOWELL

Robert Bleiberg: "...there are tens and tens, if not hundreds and hundreds, of billions screaming to be cut from this swollen federal budget. The government is crying out to be cut. It should be cut for philosophic reasons. Forgetting about fiscal and economic reasons, let's cut the hell out of it for very good reasons: there is too much government, and government is not doing what it is supposed to do, namely, maintain domestic tranquility and provide a shield abroad. Let's go back to doing what government *should* be doing. I want to cut government spending for *that* reason." **(Feb. 1981)**

Thomas Sowell: "My theory of how to get rid of poverty is to hold a meeting of all the leading experts on poverty somewhere in the middle of the Pacific and not let them go home for 10 years. When they came back, they would discover there was no more poverty." **(Dec. 1980)**

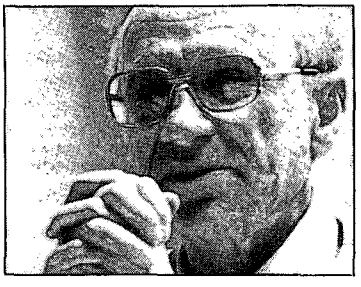
ARTHUR LAFFER



Arthur Laffer: "We *were* the place that took the poor. We're now the place that precludes the poor. We try to prohibit Mexicans from coming into this country. Our Statue of Liberty says, Give us your poor, your disenfranchised and huddling masses; we'll make them rich. But now we say, You keep your poor and give us your rich—which is outrageous. We *were* the place where the poor could do it. We are now the place where the poor are prohibited from making it, with an income tax that stopped the poor from becoming well-to-do." **(April 1981)**

Milton Friedman: "If you speak of the public policy activities, I have no doubt that the thing I am proudest of is having played an important role in getting rid of the draft and introducing the volunteer army." **(Aug. 1977)**

MILTON FRIEDMAN



Thomas Szasz: "A free market in heroin doesn't compel anyone to take heroin any more than a free market in alcohol or cigarettes or rat poison compels anyone to use these substances; and insofar as a person wants to use them, he is of course expected to know how to use them. It's no more difficult to learn the proper dose of heroin than it is to learn the proper dose of aspirin or Ex-lax. I just don't believe these are real problems. They are rationalizations, justifications for the prohibitory policies we have. After all, we live in a capitalist country, and yet free trade in gold is prohibited. You certainly can't attribute *that* to the pharmacological properties of gold." **(Oct. 1974)**

F. A. Hayek: "I don't think I have anything to retract [from *The Road to Serfdom*]. Perhaps I did see the danger nearer, but it is a common experience that these tendencies take a long time to work themselves out; on the whole, though the world is following the path I was afraid it would. In a way, the thing has become more serious just now, because we are now being driven into a planned society by inflation." **(Feb. 1975)**

F. A. HAYEK

Adam Smith: "The practice of funding has gradually enfeebled every state which has adopted it. Like an improvident spendthrift, whose pressing occasions will not allow him to wait for the regular payment of his revenue, the state is in the constant practice of borrowing of its own factors and agents and of paying interest for the use of its own money. The enormous debts which at present oppress will in the long run probably ruin all the great nations." **(1776)**

(printed in REASON July 1976)

Perhaps the fact about Editor-in-Chief Bob Poole that most amuses the REASON *staff is his hobby—model railroading. At Poole's home, an intricate miniature railroad dominates his spacious garage, and his excitement in explaining the layout often reaches delightful highs.*

It is the utter lightness of Poole's hobby that so amuses his coworkers. This is not expected from a man whose professional energies they see indefatigably directed toward an enormously serious cause—promoting freedom in a world often hostile to that ideal.

It was while Poole was at the Massachusetts Institute of Technology, where he earned two engineering degrees, that he became profoundly interested in the cause of liberty. His initial involvement with REASON *was as a contributor of articles. About his first, "Fly the Frenzied Skies," in September 1969, Poole has been heard to report: "It was such a gas seeing something of mine in print—I knew I was hooked on journalism."*

In 1970 Poole, along with five others—including present senior editors Manny Klausner and Tibor Machan—purchased REASON *from its creator, Lanny Friedlander. Poole became one of the magazine's editors and its general manager, and it was largely his efforts that for many years kept the issues coming out every month—working evenings and weekends as he pursued a career.*

After a two-year stint as a weapons-systems analyst, Poole had taken a position in 1970 with a Santa Barbara think tank, where he analyzed criminal-justice systems. In 1975 he became an independent consultant in the field of public-services administration. Three years later, Poole gave up this career to devote himself exclusively to REASON*'s editorship and to direction of the newly created Reason Foundation.*

We asked Boston-based writer and radio personality David Brudnoy to interview Bob Poole.

REASON INTERVIEW

Robert W. Poole, Jr.

BRUDNOY: Why did you start REASON magazine?

POOLE: Well, actually I didn't start it. Several other people and I took it over after it had been going for about two and a half years. We got involved to have a national journal with basically libertarian ideas in it, helping to shape the nature of debate on public issues.

BRUDNOY: Yet the magazine has readers beyond the libertarian community. In fact, the majority must be nonliber-

Photographs by *Joyce True*

tarians. What balance do you try to achieve between them?

POOLE: We try to aim almost all of the magazine's material at intelligent readers, whatever their political or ideological connections. What we set out to achieve, and what we think we are starting to achieve, is influencing the kind of issues that matter and fostering specific ideas that are brought to bear on them. If we were talking only to people firmly committed to a free market and individual liberties, that wouldn't really accomplish the purpose.

BRUDNOY: Has the growth in REASON's circulation fulfilled your expectations?

POOLE: Being now in the thirty thousands after 15 years doesn't indicate phenomenal growth. I remember when Tibor Machan and I wrote our original business plan, we had in mind something like fifty or sixty thousand subscribers after three years! Well, we were rather naive. Actually, we had no idea what people normally have in start-up capital when they begin a magazine—typically two to three million dollars. We had on hand a grand total of fifteen *hundred* dollars.

BRUDNOY: Still, given the resources and knowing what you know now about publishing, it's not an unreasonable—no pun intended—success rate.

POOLE: I think it's something. I'm pretty proud of what we've done—especially since 90 percent of new magazines fail within a few years, and most are started by people who know what they're doing. We were rank amateurs. None of us had even been editor of a school newspaper before! So the fact that we survived at all, let alone grew from 400 subscribers in 1970 to some 35,000 today, is no small achievement.

BRUDNOY: How does REASON conform today to what it was designed to do back when Reason Enterprises was formed in 1970?

POOLE: Pretty well, actually. In the first half dozen or so years of our running the magazine, it wasn't close to what we'd said we wanted—not at all. It was primarily a magazine aimed at libertarians, although we'd said we wanted to create a national magazine that would be taken seriously, like the *New Republic* and the *Nation* and *National Review,* And in the last few years that's started to be the case. Articles are reprinted; authors are quoted; some of our stories make the news. So we are entering into that mainstream.

BRUDNOY: What obstacles stand in the way of accomplishing your goals—I mean aside from financial obstacles?

POOLE: There really aren't any, except, as is obvious, financial obstacles. Though I should mention that we may face a bias against some issues that we think are interesting but that mainstream media outlets prefer to ignore. Here's an example: We did an important exposé of misuse of federal grant money by Cesar Chavez's union, and the major newspaper west of the Mississippi absolutely ignored that story. Wire services picked it up and NBC News did 20 minutes on it, but as far as the *Los Angeles Times* was concerned, the matter didn't exist. Their labor writer is and always has been pro-Chavez, and there was just no way that the *LA Times* would cover our story.

BRUDNOY: In the matter of civil liberties, it seems that there is an overlap between REASON and, say, the *New Republic,* whereas with *National Review* we seem to get much more censorious views. Maybe if you took the economic views of *National Review* and the social views of the *New Republic,* you'd have REASON?

POOLE: I think REASON goes a good bit farther toward laissez faire than *NR.* Our economic views are similar but certainly not identical.

BRUDNOY: Do you find the neoauthoritarians—I guess they'd rather be called the neoconservatives—congenial to REASON? Does that strand of thought make much sense to you?

POOLE: Well, maybe I'm naively optimistic, but I find myself agreeing with quite a number of things that, say, Irving Kristol writes, though of course not his views on censorship. Still, I find the development of neoconservativism a positive thing. Not because I agree with everything they say. Just the fact that former socialists have come to their senses. They're very bright people, and 30 years ago they and people like them helped form the welfare state. Now they have changed their minds, and they're allies in opposing collectivism.

BRUDNOY: Recently REASON published an interview with Kristol, and the question of censorship came up. He did his usual routine, which we've seen in the *New York Times* and everywhere else. Did you get letters from readers shrieking that you shouldn't publish that nasty authoritarian's views?

POOLE: Sure, and of course I expected some. Some people think that if we publish an interview, we thereby take the interview subject as a hero. But they'll be finding more such interviews in the future.

BRUDNOY: Why not promote the views of those who are closer to most of us within the free-market, individual liberties framework?

POOLE: Good question. But I think the answer is that there are some people who are significant enough on the intellectual scene and who some people, seeing only some of their writings, may think, "Oh, these people are on our side." And getting into a discussion with such people on a whole range of issues can be illuminating. And in fact, in addition to those critical letters, we also got a number saying that we'd done a service by demonstrating through the interview that Kristol is a far cry from being a libertarian.

BRUDNOY: Does REASON have some special ingredient giving it a competitive edge?

POOLE: I think so, though I'm not unbiased. We do have a competitive edge in that we have a consistent record of coming up with new ideas that haven't appeared anywhere else—unsuspected, exciting applications of free-market ideas to new situations, like fire and police protection, for example; innovative examples of people doing things for themselves through voluntary self-help organizations. These are things that most people assume can only be done through state coercion. We don't just play around with ideas abstractly, but we actually try to find practical applications that haven't been worked out before.

BRUDNOY: Who has influenced you most in your philosophic and political development?

POOLE: It practically started with Ayn Rand, in my case. My conversion from conservativism to libertarianism came about largely by reading *Atlas Shrugged* when I was in college. The majority of the active people I met while working for Goldwater in '64 at MIT were libertarians and Objectivists, and we'd get into endless philosophical arguments long into the night. Most of that ended up inconclusively, of course, except that people kept saying: read Rand. And I did, and it caused a major rethinking on my part. My real attraction to the conservative viewpoint right from the start was laissez-faire economic theory, so it was a case of junking a lot of excess baggage that seemed to come packaged with conservatism—all sorts of repressive social views and an exaggerated anti-

communism that appeared to justify supporting dictatorships so long as they weren't communist. So throwing overboard a lot of that sort of stuff and focusing on liberty were the major changes that occurred in my thinking.

Within the next year or two I read Hayek's *Road to Serfdom*, and that was terribly important in helping me see the political ramifications of attempts to control and plan an economy centrally. Politically, that sort of thing leads to dictatorship, because each control builds more of them and builds incentives for the worst people to rise to the top. So Hayek was also a crucial influence on my thinking. So were other free-market economists, and Herbert Spencer, particularly his *Man versus the State*, which struck me as if it could have been written yesterday instead of 80 years ago.

BRUDNOY: How about some of the people involved with the magazine—did you read any of their writings before becoming colleagues?

POOLE: Not really, no. I had pretty much adopted all the major values I now hold and worked out general applications of them before reading any of (Murray) Rothbard or (Tibor) Machan or others who now write for REASON. I think Tibor's writings in philosophy, which I started reading only after meeting him, were pretty important in my development, making me take theoretical ideas and underlying philosophical ideas much more seriously. Rand primed me for that, but I had never really known a philosopher actually to play with ideas and draw all the connections out and apply them to specific circumstances as they came up. That was a fruitful experience.

BRUDNOY: From your perspective, is the Reagan presidency a negative or a positive?

POOLE: I was initially excited about Reagan's election, partly because I remembered that when we interviewed him in '75 he talked with a certain ease about libertarian ideas, and it seemed clear that at least on a commonsense level he did understand those ideas and genuinely believed them and wanted to make public policy decisions based on them. And then, when I saw a number of people who were either libertarians or pretty solid free-market conservatives go to work for the Reagan administration, I had a period of high hopes that we might actually see a scaled-down version of a libertarian presence in Washington, dismantling major chunks of government.

BRUDNOY: *Inquiry* seems to have done the best in showing that Reagan is no friend of liberty or of genuine budget cutting. Why haven't we seen in REASON a hard-hitting, validated, close, and shrewd look at the Reagan years?

POOLE: That's a fair question. I think probably it stems from my friendship with quite a number of people who had or still have jobs in the administration and from the idea that it might be wiser, at least in the first two years, to give more of the benefit of the doubt and to encourage the positive tendencies when they were so much under attack from people who fundamentally disagreed even with the best parts of Reagan's agenda. In other words, maybe we could help get more accomplished by trying to counteract that climate of hysteria whipped up by the liberals.

BRUDNOY: Are the advocates of liberty losing good young men and women because we aren't exciting enough?

POOLE: I don't think so. But it's hard to measure things that aren't there as opposed to things that are. In general, I'm reasonably optimistic. One reason is that in the time I have considered myself a libertarian, which is now probably 17 or 18 years, there's been a tremendous change in the textbooks, the professors, and the students in economics classes. The best-selling textbook when I was in school was Samuelson's—a Keynesian interventionist book, but it was year after year the top choice. It's not even in the top three any longer, and books that are much more favorable to free markets and skeptical of government intervention and control are now among the top sellers. Young economics professors whom I know have told me in effect that virtually everyone in economics today who's under 40 and doing good work is a free-market person. Now I'm sure there's exaggeration in that. There is a small group of Marxist economists that have their own organization called the Union of Radical Political Economists. But that's a remarkable statement even if it's exaggerated. And I think it is largely true.

I remember interviewing Sam Peltzman, who's one of the

"We don't just play around with ideas abstractly, but we actually try to find practical applications that haven't been worked out before."

"Unfortunately, I think there's very little fundamental respect in America today for the sanctity of the individual."

"Libertarians and their intellectual allies are doing a much better job in the economic arena than in the social arena."

Chicago guys, when he was at UCLA in about 1971 for one of the very early REASON issues, and he had a sign in his door: The University of Chicago at Los Angeles. And in those days UCLA was sort of the first seed planted from Chicago, but that's no longer true. All over the country there are schools where the Chicago or other offshoots of the basically free-market anti-intervention viewpoint is a dominant view. University of Washington, Washington University in St. Louis, Emory, Miami, VPI, George Mason—you just keep on counting them up. It's really amazing what's happened.

BRUDNOY: Are you pleased in general about the rigor of thought among younger thinkers who are coming up? Are they first-rate compared to the younger liberal and conservative thinkers? We don't have a columnist. We don't have any of those glittery lights that are known throughout the nation because of television or the major journals. It may be because of bias in editors' and producers' decisions, or might it be because we are not as good?

POOLE: It might be because we are not as good. Although I have to say, we do have some talents that are getting a lot of exposure, like Steve Chapman of the *Chicago Tribune* is now syndicated. Walter Williams is another really good rising star who now has a syndicated column. In journalism there is a small but growing group of talented, bright people who can write well and think well. I wish there were more, and I hope through our magazine we can develop more of these. Tom Hazlett is another really sharp economics journalist who is coming along and getting a lot more exposure. Patrick Cox is another one. In philosophy, too, there is quite a good group of young—meaning, in this case, under 40—thinkers and writers. The rest of the world basically knows only Robert Nozick, but there are a dozen or more under-40 philosophers who are libertarian—people like Eric Mack and Douglas Den Uyl and Douglas Rasmussen, all of whom have written in REASON over the years but who are also doing solid academic work. They're teaching in philosophy departments, publishing in journals, editing and writing books, and so forth. It's easy to overlook all this, because to the average person it's completely invisible, but I think this kind of thing is extremely important for the long term.

BRUDNOY: Deregulation is an area where those inclined toward liberty have done a lot of work—the Reason Foundation, for example, did the book *Instead of Regulation*—and where things are moving forward. Where else can libertarian thought currently impinge—with, that is, some chances of success?

POOLE: Well, besides deregulation, we're likely to get some interesting and good results with privatization—in the near term, too, because there are so many practical applications of those ideas that can be sold on their own terms, as improving the delivery of some kind of service and as money savers. Garbage collection, for example, and other forms of "cutting back city hall," to borrow a title from a book of mine; but also a great many things that the federal government does, including such biggies as Social Security. We reported in REASON a couple of years ago and have followed it up since then that Chile, of all places, had in large measure privatized its social security system. There are innumerable functions and services that are carried out by local, state, and federal government simply for reasons of historical accident or lack of imagination or belated technology. But knowing what we know now about how government operates, which we learned mostly in the last 20 years, and with the technologies we have available and with the fiscal pressures that are now facing government at all levels, people are beginning to agree that all kinds of things can be swept from the hands of the state into the private sector. And each one of those can be sold on a case-by-case basis, apart from any grand design of moving toward a free society.

BRUDNOY: Does this mean people will be absorbing one or more of a dozen libertarian views without necessarily seeing the connection between what they are doing and, should we say, the totality of a free society?

POOLE: They may not see all the connections, but—and Jim Davidson made this point many years ago in reviewing my first little booklet about privatization, called *Cut Local Taxes*—most average people, who aren't intellectuals, learn not from textbooks and from theory; they learn by everyday observation. If somebody sees that a private company does a better job of putting out fires than a government bureaucracy, that's the way they learn something, a lesson about the advantages of the private enterprise system versus the disadvantages of government. And if they see enough examples like that, eventually, with a little coaching from the side, from journals of opinion and think tank studies, they may start drawing general lessons. The lessons were always there to be drawn, but I don't think you effectively make significant change by teaching the general public the theory and expecting them to say, "Oh, now I see. Now we have this, this, this, and that." You teach them by example, by building up enough practical cases where they can walk down their street and see things being done in a better way—and with their freedom enhanced. Gradually, then, they can generalize and support perhaps other measures that would move us all further toward a free society.

BRUDNOY: Where are the advocates of liberty failing? Let me give you an example. The just-retired governor of Massachusetts, Edward J. King, proposed regulation of the cable TV industry to keep "dirty" movies off the air. He almost got a bill passed. Now the governor was responding with his gut reaction to something he personally considers offensive. I wonder if Ed King isn't much more typical of the American people than are you or I, who wouldn't try to tell

Mrs. Jones what she can watch on cable TV.

POOLE: In general, libertarians and their intellectual allies, who tend to be mostly free-market economists, are doing a much better job in the economic arena than in the civil liberties or social arena. Unfortunately, I think there's very little fundamental respect in America today for the sanctity of the individual. People still give lip service to the idea, but so many people seem to be easily swayed by appeals to this or that supposedly higher value. Somehow it seems okay to them to do all kinds of things to coerce others in the name of making them conform to their own personal view of what is right. Perhaps we've been way too confident that the protections of fundamental rights guaranteed by the Constitution are stronger than they may in fact be. Those depend very much on how the Supreme Court ends up interpreting them, and we know that depends on who's on the Supreme Court. I have to confess, myself, to having been a little more complacent than I should have been on these matters over the last decade, having seen legislatures and the courts throw out blue laws, laws against consenting sexual behavior, and most kinds of censorship, and the like. I assumed these battles had been won, but now I'm not nearly so sanguine.

BRUDNOY: Aren't we in danger of letting the social and personal issues fall by the wayside, to be taken over and done in by the New Right, while we spend all our energies pushing deregulation?

POOLE: This is one of the reasons we spend a certain proportion of our resources on the philosophical groundwork, focusing on human rights and trying to validate, at the level of fundamental first principles, the sovereignty of individual rights. We've tried to draw out the implications of this to establish a very firm, principled foundation under the basic liberties that we tend too often to take for granted. And the payoff of that is not in the next year or two but over the long run, as we convince the intellectual community that these aren't just arbitrary matters; they cannot simply be decided by a head count.

BRUDNOY: I wonder if we know how to apply the principles of liberty to the real world of foreign policy and military preparedness.

POOLE: That's the area where there's the greatest lack of solid work. We have editorialized about the failures of communism and about some of the absurdities that result from the US government trying to meddle in virtually everyone's affairs and trying to arrange outcomes everywhere in the world. But we haven't been working out the connection between the fundamental principles of liberty and foreign and military policy. That's the subject of the Reason Foundation's next book, I'm happy to say.

There are really three major problems. One is, How do you fund national defense if taxation is immoral? That is a big, huge problem. Second, what kind of overall foreign policy should the government of a free society have in terms of interacting with other nations—trade, diplomatic relations, threats of war, and so forth? A third question is, What actions are legitimate for a government of a free society in the name of national defense? Do you nuke the Kremlin? Do you threaten to wipe out whole populations? Do you have military bases overseas? Do you enter into military alliances? This is the area which the Reason Foundation's book addresses, which we expect will be out by the end of this year. And it does attempt to trace from first principles what is legitimate and what is not legitimate for a government of a free society to do in defending the territory and people of that society and to make applications to various aspects of military and defense policy, including whether you should have a CIA and if so, what it should do and what it should not do, and what do you do about naval forces, and should you have things in outer space that go zap, and so forth and so on. I think it's going to be a real major step in developing a legitimately libertarian defense policy.

BRUDNOY: What is the connection between REASON magazine and the Reason Foundation?

POOLE: Well, from the time the magazine was created in 1968 through the time when a group of us took it over in 1970 as a partnership and up until the middle of 1978, it was supposed to be a profit business venture. It had never made a profit, though, and there was no reasonable projection of it ever doing so—it was in this respect in good company among contemporary journals of opinion. Given that unpleasant fact, in 1977 I did some research and discovered that some magazines are published by nonprofit organizations. We decided that if we wanted this venture to survive and grow and to have any chance of having any serious resources committed to it, setting up a foundation was really the sensible thing to do. That way we could seek donations from individuals and grants from foundations and so forth and in addition, it dawned on us, there were a lot of other things that we could do as a foundation—conferences, books, research.

BRUDNOY: What have been your biggest disappointments thus far?

POOLE: Good question! For all the success the Reason Foundation has achieved with the magazine, I'd hoped that we would be getting much more recognition for our work by now. For example, I think *Instead of Regulation* is such a major contribution that I'm very disappointed that it's not been reviewed in the *Wall Street Journal*, for instance. It's been well remarked upon but not widely reviewed, and that will delay the realization of its significance. I'm also disappointed that we don't have the 75 percent or 80 percent renewal rate that folklore tells us the *New Yorker* has. I'd like an intense reader dedication and loyalty, and so would every editor, but we get a renewal rate of only 55 percent, and that's not good enough.

BRUDNOY: What do you attribute this to?

POOLE: I just don't know. Maybe the avowedly libertarian element in the magazine is too much for general readers. Also, we've only fairly recently taken on a full-time art director, who's done a great job improving the look of the magazine, but our budget for art is still quite low, so we can't add color on the inside at this time, use photos liberally, pay better illustrators, and so on. But it will come. REASON's history has been one of steady growth and improvement. We're now working into newsstand distribution, and that's essential to gain credibility. Other journalists who want to know what we're doing have to be able to pick up REASON easily, and to get a certain type of intellectual attention we have to be readily available on college campuses. We have a ways to go.

BRUDNOY: Do you want to be doing this job, editing the magazine, when you become a senior libertarian living in the Libertarian Home for the Aged in San Juan, or wherever? Reading X-rated versions of Ayn Rand's books? I mean, seriously, will this job sustain you throughout your working life?

POOLE: Probably. Sometimes I joke with the staff, when they worry about where we'll get the money to meet the next payroll, that they'll likely have to cart me out in a box before I can be lured away to do something different. I mean, I have a really deep commitment to this organization and to the magazine. Nothing is more important for me to be doing. But I wish I had more staff. I have to be three people, and I wear too many hats to do as good a job with any of them as I'd like. At some point I may have to choose between being the foundation's president and the magazine's editor, though I'll probably be one or the other for a long, long time. Everybody takes it for granted that I'm the maniac who's going to stick through it, thick or thin. ◻

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VIEWPOINT

A $600 Question

BY TOM BETHELL

Illuminated by hindsight, historic changes and opportunities often have a conspicuousness that they did not possess at the time they occurred. A good example is the US government's decision, in August 1971, to demonetize gold. Until that time the Treasury had been selling gold to foreign governments for $35 an ounce. When this was stopped, many people assumed that gold, deprived of a monetary role, would decline in value. Few saw the historic opportunity.

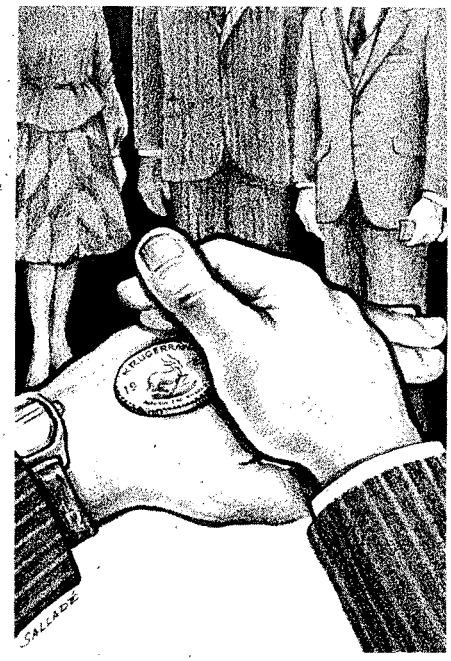
The $35-an-ounce sale of the metal had been the functional equivalent of a worldwide price control. The Treasury's steady supply of gold, plus arbitrage, had ensured a market price never much above $35. When that supply ended, gold's price had nowhere to go but up. And if, as Rep. Henry Reuss suggested, gold's price would drop to $2.50, why hadn't foreign central banks been *selling* the metal to the Treasury at the premium price of $35 instead of buying it?

As I say, these things are obvious in retrospect. But not at the time they happened. I recently undertook a brief survey of press coverage after August 15, 1971, and there was no understanding of the foregoing facts. Even the markets were confused. In the week following the closing of the gold window, gold stocks *dropped* about 15 percent. The news media—then pretty much in the dark about all aspects of economics (there has been an improvement since)—were above all jubilant about President Nixon's decision, made on the same day, to impose wage and price controls. This, said *Business Week*, had sent "a wave of confidence rolling through the country."

So today I pose the question: Are there any developments right now, the implication of which will seem obvious to people in 1995, but today are still quite obscure to us? I do have a suggestion. I confess it could be utterly wrong. But first a little more history.

Following gold demonetization in 1971, inflation predictably occurred. The egregious Arthur Burns, then chairman of the Federal Reserve Board, and his equally bad successor, G. William Miller, accommodated the various groups with a vested interest in inflation (notably government). Of course, their excuse was that they *thought* they were helping the economy by driving down interest rates. The dollar plunged. Gold soared.

By 1980, with the prime rate at 20 percent, there was a feeling that things were out of hand and that inflation was here to stay. But at the same time there was an important change: lenders, who for years had been fooled by inflation, began to demand and receive a positive rate of return. That is why interest rates were so high instead of so low. (Arthur Burns was rewarded with an ambassadorship.)



The conventional wisdom today still is that inflation may come roaring back at any time. Note that on February 11, 1983, the gold price was $503 an ounce—the same day it was announced that producer prices fell 1 percent in January, the Consumer Price Index having risen by only 3.9 percent in 1982. These figures indicate that a lot of people think inflation will resume.

My suggestion, nervously proposed, is that a new sophistication in the financial markets makes this unlikely. Gold advocates, noting gold's current sideline role, think that this cannot be. But I believe we have something new today, something absent in the gold-standard years: immensely sophisticated, highly elaborate, worldwide markets that respond swiftly and efficiently to new information. In particular, they respond to news of US debt monetization by the Federal Reserve. It is now understood (and a market reality) that monetizing debt is inflationary, and lenders will eventually demand higher nominal rates of interest. These higher rates then inhibit the creation of credit. This cycle of events, I submit, is stable—comparable to a "negative feedback" loop in engineering (a machine action provokes a response, which then damps down the original action).

Normally, when the government buys some commodity, thus increasing its demand, the price goes *up*. But when it buys bonds—that is, buys its own debt—bond prices, will decline after a while. In this instance the act of purchase not only disorients the yardstick of economic measure—the dollar—but also devalues the units (of debt) being traded. This is because the purchase is made with money created *ex nihilo*.

The upshot, I suggest, is that the Fed's hands are now tied. If it tries to drive interest rates *down* to spur economic recovery, interest rates will soon go up instead. Once this is understood—and I believe it *is* understood already—then passivity is the Fed's only rational policy. Since the Fed's board is composed of rational individuals, it is reasonable to suppose that they will not undertake to dilute the dollar when that only leads to higher interest rates and aborted economic recovery. Thus, no matter how much the inflationists in Congress will disapprove, inflation may be a thing of the past. If this turns out to be true, it will be a remarkable illustration of the limits that free markets place on political power.

If I am right, why are inflationary expectations, as expressed by the gold price, so high? Well, sometimes it does take time for economic wisdom to find its way to prices. Think, for example, of the immediate market (and pundit) belief that the gold price would drop after August 1971. On the other hand, if gold is $600 an ounce by the time you read this, I will be wondering what is wrong with the above analysis.

Tom Bethell is a free-lance writer, a contributing editor of the Washington Monthly, *and a columnist for* National Review.

Illustration by Susan Salladé

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- censor what we say
- punish us for what we write
- control what we can see
- enslave innocent individuals

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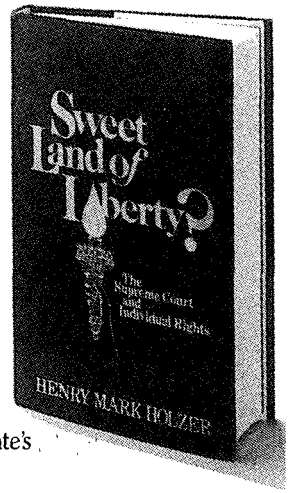
Every individual who is concerned about the future of individual rights will find *Sweet Land of Liberty?* to be a compelling and vitally important book. Order your copy today. Read it, and have your friends read it. *Until individuals understand what is happening, the destruction of liberty will not stop.*



About the Author

A constitutional lawyer and professor of law at Brooklyn Law School in New York, Henry Mark Holzer has been involved in the litigation of such diverse constitutional issues as the military draft, private gold ownership, legal tender, forfeiture of citizenship, imprisonment for debt, double jeopardy, and warrantless searches and arrests. He represented the late author Ayn Rand, and currently represents teenage Walter Polovchak ("the littlest defector"), seeking to prevent his forcible return to the Soviet Union.

Professor Holzer is the author of three books—*The Gold Clause, Government's Money Monopoly,* and his newest release, *Sweet Land of Liberty? The Supreme Court and Individual Rights.* He has published a variety of articles in newspapers and is consultant to state and federal legislators.

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Beware the Big-Tax Bullies

BY TIMOTHY CONDON

The few favorable vestiges that remain of the "Reagan revolution," which sought to give beleaguered American taxpayers a break, may soon become things of the past. As I write this, the big-spending forces on Capitol Hill are gearing up a compaign to cancel and reverse virtually every tax benefit scheduled to go into effect over the next three years.

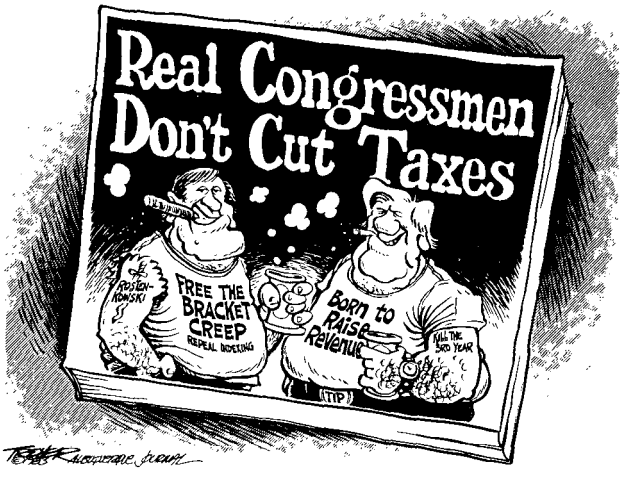
Dan Rostenkowski (D-Ill.), for example, chairman of the House Ways and Means Committee, unveiled a passel of proposals last February—cunningly called a "tax freeze"—to entirely gut Reagan's tax reforms. And big-taxer-and-spender Sen. Robert Dole (R-Kan.) weighed in with praise for many of Rostenkowski's "sound and sensible" suggestions. The big-tax chorus is loud and growing.

If Congress's profligate politicians get even a part of their plan approved, it will help to stifle any emerging economic recovery in the United States. Consider some of the "high points" of these tax reformers' plans:

• As of January 1, 1985, income-tax brackets are scheduled to be "indexed" to keep up with inflation. What this means is that the federal government will be denied the mountainous windfalls produced by inflation and a "progressive" tax system, wherein those who "make more"—more nominal dollars, that is—must pay ever higher percentages of their incomes in taxes. This is the familiar "bracket creep," and it has effectively enabled the government to increase taxes every year for decades, without having to "go public" with tax-increase laws.

The result has been an explosively growing welfare state, with predictable economic stagnation following close behind. Working people, in the meantime, puzzle over how they can "make more money" each year yet find their standard of living continually eroding. Indexing of income-tax brackets would bring the whole process to a halt, starting in 1985. *A so-called tax freeze would repeal income-tax indexation.*

• The federal estate and gift tax was pretty effectively gutted by the Economic Recovery Tax Act of 1981. Under the act, less than one percent of all estates would ultimately be taxed—which is the way it should be, as I can think of no reason government should have what someone else has worked a lifetime to earn. The estate- and gift-tax law has decreases scheduled each year through 1987. *Congress's big spenders would abolish these and possibly even reverse the tax decreases already in place.*



• Remember the "windfall profits" tax that Jimmy Carter passed to punish the people who produce the oil? Well, some of the provisions of President Reagan's tax-cutting law of 1981 reduced the penalties for producing oil, particularly newly discovered oil. Naturally, the more you tax something, the less you have of it; if you *reduce* taxes on a commodity like oil, you'll find supplies (and new discoveries) increasing. *The new tax "reformers" would abolish scheduled decreases in the "windfall profits" tax.*

• How about the new cigarette tax passed by the misnamed Tax Equity and Fiscal Responsibility Act (TEFRA)? Well, one fact about the cigarette tax is that it will automatically expire on October 1, 1985. *But if the big spenders get their way, that extra tax will become permanent.*

• Remember the new telephone taxes put on us by TEFRA? They, like the cigarette taxes, also are scheduled to self-destruct, in 1986. You guessed it. *The big-tax faction wants to make that tax permanent, too.*

• Another scheduled tax break is for Americans who work overseas. Right now the federal government taxes money you make anywhere in the world, with slight exceptions. By 1986, overseas income will be *tax-free* up to $95,000. *Guess who wants to repeal that scheduled tax break?*

• There are a number of other areas where taxpayers are either currently getting a break or will be getting one in the next few years: We can now deduct charitable contributions from income even if we don't itemize deductions on the Schedule A. In 1985, 15 percent of earned interest, with limitations, will be deductible on our tax returns. Depreciation levels are set so that businesses can take faster write-offs than in the past. Starting in 1986, the tax exclusion for pension-plan contributions will be indexed to inflation—which means we'll all be able to increase our pension contributions dramatically without having to pay additional taxes. And so forth. *Congress's big spenders have at least 13 separate tax breaks on their hit list, and if they succeed, every man, woman, and child in America will be adversely affected.*

Some of Reagan's aides can be expected to fight the big taxers' proposals, even if weakly, while others will work behind the scenes to undercut administration resistance to such plans (since, apparently, few of Reagan's advisors actually believe what the president believes in). And there is no scarcity of congressional politicos who think that government creates prosperity by taxing working people and spending the proceeds on politically favored pressure groups.

If Rostenkowski and his ilk dominate the political scene with their skewed view of how to achieve economic recovery, look out: More and more people will be turning to the subterranean economy. Still others will think about it and sensibly choose a poorer lifestyle with less work but more leisure time. And still others will hunker down and prepare themselves for the endless stagnation of a society going nowhere.

Tim Condon is an attorney and tax specialist practicing in Florida.

SPOTLIGHT

Market Nirvana

BY PATRICK COX

"I'm the only Buddhist Whig in existence," says Sudha Shenoy. Actually, the statement is a mocking of orthodox Hinduism by a member of the Gauda Sarasvat Brahmin caste *and* a pioneer in the dissemination of Austrian economics. Sudha Shenoy is an articulate critic of government interference in economic activity and an authority on the damage done to Third World countries by well-intentioned economic aid.

Shenoy dresses and looks Indian, even to the *bindi* on her forehead, but she says, "If I'm anything, it is British." She is currently a visiting fellow at the Institute for Humane Studies in Menlo Park, California, but she hails from Australia, where she teaches economics at the University of Newcastle. Her husband, an archivist, is also at Newcastle.

About Australia, she says, "Australian anti-intellectualism has saved the country from going too far down the path that Great Britain has taken, but in the end, it will go the same way as the United States and Great Britain. That is the fate of all small countries." The reason, she says, lies in the economics taught in American and English universities 20 years ago. It is at those schools that the leaders of small countries are educated, and it is there they get their ideas.

Shenoy calls herself an anarchist or, jokingly, a monarcho-anarchist. Her fondness of royalty seems inconsistent with her well-known individualism. The Indian woman also has good things to say about the caste system.

The virtue of monarchy in England, she believes, was that the upper classes "have always been rather stupid, allowing the middle class to rule the land." This brought untold benefits to the general population. Now, Britain is only nominally a monarchy and in reality a welfare state. "As bad as the old system was," she says, "the new English system is infinitely worse, and social mobility is infinitely more difficult."

The caste system, too, she views in perspective. Although horrible in many respects, it is a way, she observes, of institutionalizing tolerance. "Americans expect people to be much more uniform than Indians do. We expect to see fundamental differences in values and lifestyles. For thousands of years, India has been invaded, but the conquerors are eventually just integrated as another subcaste."

This gives her hope for the Third World's survival. "Throughout Asian history, government has always been a predator. There's never been any of this humbug about government being for your welfare or your benefit. There is a sharp distinction between politics and society that is not so apparent in the Western world. Social institutions have survived numerous governments."

SUDHA SHENOY

In the caste tradition, Shenoy followed in her father's footsteps. An economist, he was studying in England when F. A. Hayek delivered his famous speech on prices and production at the University of London in 1931. "He wandered into the lecture hall," she recounts, "and somehow penetrated Hayek's thick Viennese accent and immediately recognized the Austrian framework as the only proper economic model." B. R. Shenoy was the only real critic in the 1950s of Nehru's economic policies, and in the mid-'70s, under Indira Gandhi, he achieved the dubious honor of having laws passed simply to silence his continuing criticism of Indian economic policies.

Sudha Shenoy entered the London School of Economics 33 years to the day after her father enrolled. She has continued his work in Austrian economics and exposing the ill effects of foreign aid. Her 1971 book, *India: Progress or Poverty?* published by London's Institute of Economic Affairs (IEA), is an articulate attack on so-called aid dumped on that Third World nation.

In 1972 she helped bring to publication F. A. Hayek's *A Tiger by the Tail: The Keynesian Legacy of Inflation.* She says that the book came out at "a psychologically critical moment in British economic thinking, if you will." In fact, the financial press was full of it. Britain's leading economic reporter, Samuel Brittan, publicly repented his previous Keynesianism and credited the book for his conversion.

Shenoy is a good-humored, quick-witted woman whose belief in economic freedom makes many American advocates of the free market look liberal in contrast. Perhaps the most striking thing about her is the way she has incorporated into her own distinctly Indian point of view values held dear by Western free-marketeers. She believes in reincarnation, is a strict vegetarian, and likes to quote Tao Teh Ching on social policies.

She sees no contradiction between the Austrian economic framework and her own Buddhist Hinduism. "The connection," she explains, "is Hayek's concept of law: people acting spontaneously—not randomly, but with implicit rules. Like the spontaneous order of language, there are rules, and it's the same in the moral sphere. Law is built into the universe." So Shenoy works to understand the implicit rules governing the economic sphere.

Does she think the human race is making progress through the chain of reincarnation? I asked her. "Now you're thinking like a Christian," she corrected me. "It's not reward or punishment if you walk off a cliff. It's simply the return of what you've done.

"When the history of thought has been written," she says, "this time will probably be seen as a great flowering and expansion. Whether or not it becomes crystallized or institutionalized, we cannot know. We are all incipient Buddhas. We all have the opportunity to learn the laws of the universe if we choose to take it."

Patrick Cox is a free-lance writer, a frequent guest columnist for USA Today, *and public affairs director of the Pacific Institute for Public Policy Research.*

Photograph courtesy Institute for Humane Studies

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MOVIES

Reviewed by John Hospers

Moonlighting

The events in *Moonlighting* are played so low-key that at first one may not grasp their significance. The significance is there, but it is different from what one would have expected. Here is a film involving Poland and Solidarity, and one would think a film on this subject would take full advantage of its theme and present a dramatic conflict between freedom and oppression.

This is not what takes place, however. Jeremy Irons (best known for *The French Lieutenant's Woman* and the television series *Brideshead Revisited*) is the leader of a group of four Polish workmen who arrive in Britain to repair the London apartment of their party boss. They seem to have no political interests and are not members of Solidarity; they are concerned not with their country in general but with making a living and with the well-being of their families. But while they are in London, martial law is declared in Poland (December 1981). The foreman—the only one in the group who knows English—learns from the newspaper of the turn of events in Poland but decides not to tell his fellow construction workers for fear that they won't complete their assigned job. He tries to ensure their continued ignorance of Polish developments by virtually holding them in captivity in the apartment, making their stay in London a vague analogue of Poland under martial law. They are now stranded in London without funds and unable to return home.

Four Polish workers are stranded in London in Moonlighting.

Writer-director Jerzy Skolimowski develops his plot totally without melodramatics, and in the end the subdued tones carry the greatest impact. It is worth the price of admission all by itself to watch the transformation of Jeremy Irons from a visitor in a foreign country, staring wide-eyed at shops that actually contain consumer goods, to a troubled citizen who is a passive victim of international events over which he has no control.

The Lords of Discipline

"In this decadent and immoral society, there remain a few institutions devoted to the training of men of moral courage and self-discipline, on whose continued existence the survival of our society depends." Such is the view of military academies promulgated by those in charge of them, in two recent films.

It was clearly the view of the general played by George C. Scott in last year's *Taps*. This was a story of rebellion against that authority—but a rebellion not to destroy the system but to preserve it. Both sides of the issue were tellingly presented, and the viewer was left to decide for himself which course of action was the right one.

It is also the view of those in authority in the new film *The Lords of Discipline*. It is not as good a film as *Taps*: it is less intense, less focused, and the treatment less subtle. The issues here are pretty much black and white, and there is no doubt where one's sympathies should be when the professed ideals of those in charge are hypocritically at odds with their actual practice. The corruption comes to a head with the entrance of the first black cadet (circa 1964) into the Carolina Military Academy. Ostensibly, he is to be treated the same as every other cadet, but unofficially, those in charge want him out and don't care how it's done. How the black cadet stands up under intolerable pressure and physical torture, and how some secrets about the actual governance of the academy are discovered through the perseverance of one cadet, make for a tense and fairly exciting story.

Threshold

After a flood of films and television serials about the medical profession, at last there is one that rings true. *Threshold* gives us an insight into the career of a heart surgeon, totally dedicated to his profession as well as to the psychological well-being of his patients. This role is superbly played by Donald Sutherland (who has never been better than in this film), with sensitivity, self-confidence, human sympathy, and a personal magnetism that draws the viewer to watch him with fascination. The heartbreak of losing patients one has sought to save, the development of new technology in medicine, and the race for time between the new technology and the saving of the lives of patients we have come to know and care about are portrayed with a quiet realism that makes sentimentality superfluous.

Any film about day-to-day hospital life is bound to be somewhat episodic. Patients come and go, and the daily round continues. But there are two intriguing themes around which this film is centered: first, the life (or death) of a young female patient and the experimental artificial heart implanted in her to replace the defective real one; and second, the contrast between the surgeon and a young biologist who is full of medical applications of his theories, spurned by the entrenched doctors, and contemptuous of them in turn because they get all the praise (and the money) while he does the experimental work that makes their surgery possible.

The release of this film was postponed because of the artificial heart implant that had meanwhile occurred in reality. But the film is interesting enough on its own: the postponement of its release was quite unnecessary.

John Hospers is the author of Understanding the Arts. *He teaches philosophy at the University of Southern California.*

BOOKS

An Imperious Solution

The Imperious Economy
By David P. Calleo
Cambridge, Mass: Harvard University Press. 1982. 265 pp. $17.50.

Reviewed by Paul Craig Roberts

In *The Imperious Economy*, David Calleo surveys the effects of 20 years of economic policymaking in the United States and concludes that "history is finally presenting America with its bill." He could go further and say that history is presenting the whole world with its bill for the inflationary income redistribution policies of the last decades. The United States is not fundamentally different from any other industrialized country in policies followed and mistakes made.

Calleo doesn't see it that way. For him, the United States over the last two decades "abandoned domestic economic restraint and used American power abroad to permit a seemingly painless inflation at home." "Thanks to our clever economists," America "was supposed to be able to avoid choices forever." But with world stagnation and a crumbling monetary system, "increasingly, America's domestic aspirations have been in tension with its responsibilities to a liberal international order."

Since Calleo believes that all the world's problems stem from the United States' inability to discipline its own domestic economy and thereby to get a grip on inflation, it is best to start there. The author aptly spots the outward symptoms of the disease affecting American economic policy; he is less skilled in his diagnosis of cause and prescription of cure. His main mistake is to ignore the cumulative effects of a system that rewards nonproductive action at the expense of productive action.

Economic policy during the past two decades in the United States—as in the rest of the free world—has been dominated by attempts to manage aggregate demand. Taxes and expenditures were manipulated to move the economy toward target levels of spending. It was taken for granted that the nation's ability to produce—the supply side of the economy—needed only a sufficient level of demand to keep going.

By focusing on demand, economic policymakers overlooked the rising disincentives to produce additional income. The combination of inflation and progressive income taxation pushed people into higher and higher income tax brackets, holding down their real after-tax earnings. In 1965 a median-income family of four faced a federal marginal tax rate of 17 percent. By 1981 the rate was 28 percent—a 65 percent increase in the rate of tax on additions to the family's income. If Social Security taxes and state income taxes are added in, the median-income family is in the 40 percent bracket or higher.

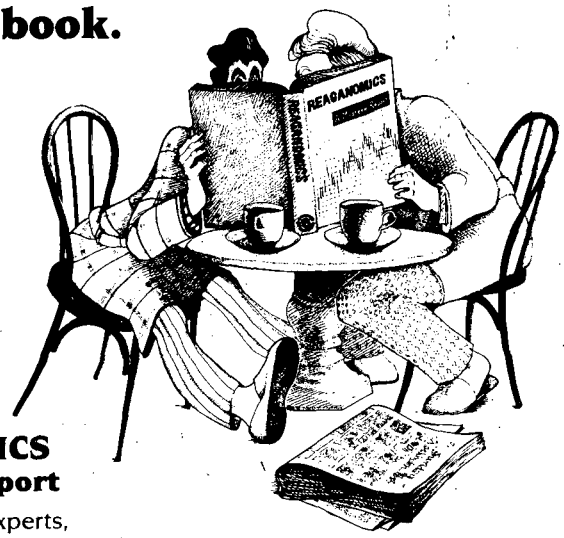
Business is in equally bad shape. The combination of inflation and the tax depreciation law caused the costs of replacing the plant, equipment, and inventories used up in production to be understated by $200 to $300 billion over the 1976–80 period. This came out of business saving and, together with the decline in personal saving, the funds available to the capital market were reduced by $350–$450 billion over the five-year period.

The "stop-go" demand management policies of the '60s and '70s created additional uncertainty. No one knew for sure when the policy of expanding demand would give way to a policy of contracting demand and vice versa. An element of uncertainty was added to planning, raising the "hurdle rate of return" that must be met before new investment commitments are made. All these factors, along with government regulation and inflationary monetary growth, combined to reduce the rate of capital formation, to curb business investment in research and development, and to divert resources to nonproductive purposes or into the underground economy.

Over these same years the indictments of our economic institutions have been severe. The market economy is too often portrayed, not as an institution that allows individuals to better themselves, but as a relentless machine for grinding the poor under the heel of greed. In *The Imperious Economy* Calleo espouses this view, writing that, "market 'freedom' is all too often a euphemism" for a transfer of power from "democratic number" to "oligopolistic wealth."

Allegations of market failures and social costs helped to transform our economic institutions. New property "rights" have been created by government that give some people claims (entitlements) to the income (transfer pay-

Ronald Reagan and Tip O'Neill should sit down next Sunday and read this book.



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ments) of others. Drawing resources away from the production of new income and using them in political efforts to acquire existing income from others contributes to economic decline.

David Calleo's lack of faith in the free-market system leads him to conclude that the state should be the engine of progress in the '80s and beyond. Although he is not wholly blind to its weaknesses, he believes that government can be tempered by "endowing it with a greater degree of measured discipline, a discipline that might be expected to help generate and mobilize a greater sense of cooperation and responsibility in the community at large." His "strategy for reindustrialization" would unite government, business, and labor to "formulate a long-range national economic strategy." After all, he points out, "all the phobia against planning has not saved Americans from high taxes, excessive regulation, inflation, and foreign excess."

The other half of Calleo's national strategy is to combat inflation with economic restraint. "Unfortunately for democracies," the author writes, "restraint must be achieved before growth can resume." Calleo attacks supply-side economics as just another political gimmick that "will produce more inflation than growth." The author does not take the time to prove, nor has it ever been proven, that rewarding productive behavior and restoring incentives to the economy are inflationary.

Our experience of the past two years with the policies of traditional Republicans who pushed aside the original Reagan supply-side agenda proves the danger of restraint as an answer to inflation. Thanks to these policies, the unemployment rate is the highest since the Great Depression, and we are threatened with bigger government.

What could be even more serious is the long-term side effects of restraining the growth of the real economy. Competition for existing wealth would grow more, not less, intense, and income would be redistributed to those individuals who are most able to succeed in the political arena. The longer economic growth policies are subjugated to policies of restraint, the further a lasting recovery and a free economy will fade into the horizon.

As for US foreign economic policy, Calleo believes that the American attitude toward the international financial system has over the past 20 years "reflected a basic urge to dominate the monetary system so that no external constraint can limit the expansive impulses, at home and abroad, of the American political economy. The upshot has been to make the world subject to American monetary policy and to make that monetary policy, in turn, not subject to any external constraint."

This view of America as a hegemonistic demon ignores the fact that all the other industrialized democracies and a good part of the Third World were following the same expansionary, demand-management policies in the '60s and '70s. The United States' currency was inflated to accommodate the liquidity demands of the rest of the world.

The dangers to free trade from austere domestic policies can be seen today. With a strong dollar due to a restrictive money policy (which might be coming to an end), our exports are less attractive to potential foreign buyers. Imports are cheaper to the American consumer than the goods produced by American labor. Taking a recent example cited in the *New York Times*, a two-million yen Japanese car sold in the United States a year ago for $10,000, yet today the same car costs only $8,000. On the other hand, American exports cost 20-30 percent more to foreign buyers than they did only a year and a half ago.

With domestic jobs and profits threatened, demands will increase within the United States for more protectionism at a time when the world can least afford it. Rising protectionism as a response to domestic restraint and international liquidity problems further threatens the world's monetary institutions. Debtor countries are finding it difficult to pay principal and interest, putting unusual pressure on both borrowing countries and their creditors. Without markets to provide earnings to service these debts, foreign countries would be all the more likely to default on their loans.

The road to economic well-being is to reward productive economic activity and to provide a moderate and predictable growth of money to finance real economic growth without reigniting the fires of inflation. In taking this road, supply-side economics would rely on the individual. Calleo would rely on bigger government.

Paul Craig Roberts holds the William E. Simon Chair in Political Economy at the Center for Strategic and International Studies at Georgetown University. In the first year of the Reagan administration he served as assistant Treasury secretary for economic policy. He has authored two books and numerous articles.

Rand's Last Words

Philosophy: Who Needs It
By Ayn Rand
New York: Bobbs-Merrill. 1982. 282 pp. $15.95.

Reviewed by Douglas Den Uyl

I became a professional philosopher because of Ayn Rand. I do not remain one simply because of her. I accepted long ago the main thesis of Rand's new book, that philosophy "matters." However, I have since learned that there is more to philosophy than its practical implications. Philosophy is fun, interesting, extremely complex, and most of all, full of surprises. That philosophy can be all of these things is not necessarily apparent if one's only source of contact

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with it is Ayn Rand. *Philosophy: Who Needs It,* as well as Rand's other writings, tells us more about how Rand perceives the implications of philosophy than about what is actually required to *do* good philosophy. More on this in a moment.

Philosophy: Who Needs It is a collection of some of Rand's writings between the years 1970 and 1975 (with one exception). Most of the essays appeared in the *Ayn Rand Letter.* Rand had intended to edit this work herself, but her death last year meant that Leonard Peikoff had to do most of the editing and some selection of the articles to be included in the volume.

The title of the book suggests that what people need is philosophy. But this is not so. According to Rand (and Peikoff in the introduction), all of us already have or are guided by a philosophy, whether or not we have made it explicit. Presumably, then, what one needs is the *correct* philosophy rather than philosophy per se. Assuming for the moment that what we need is Rand's philosophy, there are three classes of people to whom this book might be addressed: those who are unfamiliar with Rand's philosophy and wish to learn about it, those who are familiar with her thought but disagree with it, and those who are familiar with her thought and are in substantial agreement with it.

If you fall into the first category, my advice is not to start learning about Rand's philosophy with this book. On the assumption that you have read her novels, the *Virtue of Selfishness* and *Capitalism: The Unknown Ideal* are much more significant works on Rand's philosophy than is this book.

Those familiar with Rand's philosophy may find this book of value, but I suspect that the more familiar one is, the less one will be impressed. This is not to say that there are not some fine essays in this volume. If you have never read "Kant versus Sullivan" the book is worth buying for that essay alone. The relatively unavailable "Faith and Force: Destroyers of the Modern World" is also contained in this collection of essays, and one would not want to miss "Causality versus Duty." "Selfishness Without a Self" is an interesting piece, and "Don't Let It Go" is inspirational and appropriately placed at the end of the book.

There is, however, one thoroughly terrible essay in the book: "Fairness Doctrine for Education." This essay is full of compromises, contradictions, and sour grapes and offers the absurd proposal that we institute a fairness doctrine for publicly supported universities whereby they would be required to hire faculty members with dissenting points of view. What self-respecting scholar would want to be installed on a university's faculty as its latest Floyd R. Turbo?

Many of the other essays deserve mixed reviews. Consider "An Untitled Letter," wherein Rand declares that she has not read and does not intend to read John Rawls's *A Theory of Justice* and claims that she will only evaluate a reviewer of Rawls's book. Despite her assertion that "one cannot judge a book by its reviews," Rand goes on to make

Ayn Rand

judgments about Rawls's book anyway. Here is a case where "justice as fairness" is applicable. Rand, to her credit, did not make the same mistake in another essay, on B. F. Skinner's *Beyond Freedom and Dignity.*

Consider also "The Metaphysical versus the Man-Made." We are told by Peikoff in the introduction that this is the "fullest discussion in print of one element of the Objectivist metaphysics—the primacy of existence." One thus approaches this essay in anticipation of something like an additional chapter to the *Introduction to Objectivist Epistemology.* Although the essay contains some interesting sections, one finds little that is new, and quite often a new insight is undeveloped and followed by psychologizing or cultural commentary.

Since this book does little to advance one's understanding of insights Rand put forth almost two decades ago, it is likely neither to challenge her critics into rethinking their views nor to offer much stimulation to those sympathetic to her position. And yet. . . just as one reaches a climax of disappointment while reading the book, Rand offers the reader something of substance. For example, I found the following passage insightful and typical of a number of worthwhile remarks: "Consumers *qua consumers* are not part of anyone's market; . . . Only *producers* constitute a market . . . . In the role of producers, they represent a market's 'supply'; in the role of consumers, they represent a market's 'demand.' The law of supply and demand has an implicit subclause: that it involves the same people in both capacities." Remarks like this one are vintage Rand in that they get to the heart of the matter so directly. Moreover, the essay from which this passage was taken ("Egalitarianism and Inflation") was written in 1974—long before anyone ever heard of "supply-side" economics.

Perhaps my mixed assessment of this book reflects inflated expectations. After all, this is Rand's last book, and one would have expected her last statement to be an original and penetrating elaboration on earlier theses. If that is your expectation, you will be disappointed. Compared with Rand's earlier works, this book is not particularly original or substantive. And this relative lack of substance reopens the question whether it is Rand's philosophy or philosophy per se that is more urgently needed. Why is it after all these years that Rand has not been taken seriously by most professional philosophers?

One possible answer to the last question is that there is a massive conspiracy of "neo-Kantians" who are "antimind" and "antilife" and who "hate the good for being good." Whether they be "linguistic analysts" or "existentialists" or whatever, these thinkers ignore Rand because she exposes them for what they are. This is the theory Rand and many of her followers seem to hold.

But conspiracy theories are notoriously difficult to substantiate. For this one to work, it would be necessary to show that Rand had reasonably met the rigorous intellectual standards demanded of someone who seeks philosophical respectability. These standards are primarily concerned with ensuring a careful and painstaking development of philosophical theses. Much of this book does not live up to such standards, although some of the essays in Rand's earlier works do. It is not, therefore, simply the presence of a "conspiracy" that keeps Rand from gaining the respectability she herself

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probably desired.

Since scholarly standards are largely formal, they can protect the mistaken as well as the true. But such standards evolved for good reasons—to protect the truth. One would have hoped that Rand would have appreciated this and tried to live by these standards in her later works. Perhaps one example can indicate what I mean.

Rand states that "at the root of every civilized achievement, such as science, technology, progress, freedom... you will find the achievement of *one man*, who lived over two thousand years ago: Aristotle." This statement is made despite the fact that modern science was in large part founded on a self-conscious rejection of the basic tenets of Aristotelianism (hylomorphism, teleology, final causality, etc.). Moreover, modern science has seldom understood itself in predominantly Aristotelian terms. None of this shows that Rand's statement is incorrect; at a certain level of abstraction her remark may indeed be accurate. But why would a serious student of the question of the relationship between Aristotle and science attach much significance to Rand's undeveloped assertion when that person can read William Wallace's *Causality and Scientific Explanation* or Rom Harre and Edward Madden's *Causal Powers?*

Furthermore, those unaware of the nature of philosophy are likely to get the impression from Rand that the thinkers of the modern era are moved by a vicious hatred of reason and a willful desire to perpetrate gross falsehood. What one actually finds, however, in studying philosophy is quite often a sincere effort to reasonably treat real problems. Some of these treatments may indeed be as mistaken and disastrous as Rand suggests; but philosophy will quite often surprise enthusiasts of any sort with the formidability of the *best* statement of their opponent's position.

The battle of ideas is ultimately won by taking the best one's opponents have to offer and dealing directly with those arguments. This is not always what one finds Rand doing in this book.

And perhaps the final disappointment is that Rand does not take philosophy seriously enough. Those of us who have admired Rand's thought over the years had hoped that this last work of hers would be the one promised in her *Introduction to Objectivist Epistemology:* a fuller treatment of those introductory comments. *Philosophy: Who Needs It* is no substitute for that never-to-be-written treatise. Perhaps there are mitigating circumstances that led Rand to spend most of her last decade of life trying to sell or apply her ideas rather than to expand or refine them. And perhaps we should not complain about Rand's failure to deepen her views, since it leaves generations of young philosophers much to think and write....I am certain, however, that few if any of her students or future admirers will have quite the ability to identify an issue and point to its solution as did the master herself.

Douglas Den Uyl teaches philosophy at Bellarmine College in Louisville and is a coeditor of The Philosophical Thought of Ayn Rand *(forthcoming).*

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The Empire Disintegrates

The Third World War: The Untold Story
By General Sir John Hackett
New York: Macmillan. 1982.
372 pp. $15.75.

Reviewed by Jeffrey Record

Several years ago Gen. Sir John Hackett, a highly decorated veteran of the Second World War and former commander of NATO's Northern Army Group, penned an imaginary account of the next global conflict. The original manuscript of *The Third World War, August 1985* depicted a NATO-Warsaw Pact mobilization crisis sparked by a Soviet invasion of Yugoslavia, followed by a massive Soviet blitzkrieg against Western Europe resulting in NATO's decisive defeat and a negotiated withdrawal of US forces remaining on the Continent.

NATO officials privy to the manuscript understandably were quite disturbed by Sir John's postulated outcome of a third world war, which reflected an acute appreciation of the continuing and potentially fatal deficiencies in NATO's defenses in Central Europe as well as the degree to which Soviet forces and doctrine have been deliberately tailored to exploit them. It was argued that the original manuscript, if published, would provide ammunition to those on both sides of the Atlantic opposed to increases in NATO defense expenditure on the ground that Europe is inherently indefensible against a full-blooded Soviet attack. Sir John allowed himself to be talked out of the last 30,000 words of his draft.

In the revised manuscript, published in

1978, NATO manages miraculously to snatch victory from the jaws of seemingly certain defeat. The Soviet blitzkrieg, after some damaging gains and much loss of life, is stopped cold east of the Rhine by battered but surprisingly resolute and (of course) better-equipped NATO forces. A frustrated Politburo, facing mounting popular unrest in Eastern Europe and the Soviet Union itself, unwisely chooses to escalate the conflict by incinerating Birmingham with a nuclear missile. NATO instantly responds in kind with a strike on Minsk, which triggers a bloody coup d'etat in the Kremlin, the disintegration of the Soviet empire, and capitulation of Soviet forces around the world.

Intended as a sequel to the 1978 book, *The Third World War: The Untold Story* is little more than an addendum to the first work, containing "the untold story" of events inside the Kremlin during the critical period between the decision to attack Birmingham and the coup d'etat. While both works are rich in detail and reflect a sure grasp of modern technology at work on the battlefield, *The Third World War: The Untold Story* may prove disappointing to many who enjoyed Sir John's first book. *The Untold Story* is a comparatively disjointed tale and lacks the vivid prose and suspense-building drama of the 1978 book. The reader is constantly assaulted by no fewer than 160 real and fictional acronyms (for example, UNFISMATRECO—United Nations Fissile Materials Recovery Organization) and high-tech jargon that would leave even Alexander Haig, Jr., gasping for breath.

The principal flaw of *The Untold Story*, however, is its depiction of the Soviet Union and its empire as an entity of such political, economic, and cultural fragility that it would quickly self-destruct in the face of a major military reverse. To be sure, we are dealing with a work of fiction; but one must distinguish between fiction and deliberate fantasizing. And to be sure, the Soviet Union does confront profound and increasingly debilitating internal political, economic, and cultural contradictions; but to postulate that these contradictions would doom the Soviet Union in wartime is self-delusion of the kind that led Napoleon and Hitler down the disastrous road to Moscow.

The Soviet Union is not Tsarist Russia in 1914. However morally degenerate, economically incompetent, and culturally brutal, the Soviet leadership has for decades demonstrated a remarkable facility for sustaining imperial cohesion in the face of external threats. It is not weakly autocratic but powerfully totalitarian. Soviet casualties in the *Third World War* amount to but a fraction of the 20 million dead sustained in the Second World War, and the loss of Minsk is dwarfed by the Nazis' utter devastation of all of Western Russia in the early 1940s. Yet in the *Third World War*, within days after hostilities commence, there are mutinies aboard Soviet warships; entire divisions—and in one case a whole tank army—defect to NATO; and food riots break out in Moscow. The Soviet military turns out to be not a muscular giant but rather a hollow midget.

No less fantastic than the prompt disintegration of the Soviet empire in wartime is Sir John's postulated Soviet motive for starting the third world war in the first place. The Kremlin decides for war simply on the basis of what it perceives to be a temporary military advantage over the West, a "window of opportunity" that must be exploited before it is closed by Western rearmament and a worsening Soviet economic crisis.

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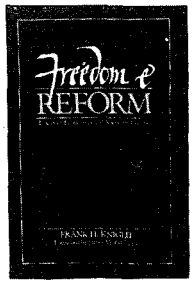

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Jeffrey Record is adjunct professor of military history at Georgetown University and the author of numerous books on military affairs.

Diseased Appetite

The Years of Lyndon Johnson: The Path to Power
By Robert Caro
New York: Knopf. 1982. 882 pp.
$19.95.

Reviewed by Paul Gordon

"The effect of power and publicity on all men," wrote Henry Adams, who certainly saw enough of power and publicity to know, "is the aggravation of self, a sort of tumor that ends by killing the victim's sympathies, a diseased appetite, like a passion for drink or perverted tastes; one can scarcely use expressions too strong to describe the violence of egotism it stimulates."

That may have been true of the politicians Adams knew. But they were temperate and self-effacing saints compared to Lyndon Johnson, with his "hunger for power in its most naked form," as Robert Caro puts it—"for power not to improve the lives of others, but to manipulate and dominate them, to bend them to his will. . . . No consideration of morality or ethics, no costs to himself—or to anyone else—could stand before it." *The Path to Power* is an exquisitely, gruesomely detailed chronicle of the young Lyndon Johnson and the monstrous obsession that carried him, a man with a mediocre education, with no money, from one of the most backward areas of the country, to the presidency (or at least the vice-presidency) and greater personal wealth than any president has had before or since.

The obsession was there when Johnson was a child. After interviewing scores of Johnson's contemporaries, Caro found that during his youth, Johnson was immensely unpopular with his playmates because of his scheming and domineering. At San Marcos State College, the hostility of his fellow students became intense and deep because he lied constantly, betrayed his friends, blackmailed his enemies, and created a political machine and elaborate patronage system that rigged student elections. (One of his underlings smiled as he told Caro, "You know, later on, when everyone got so excited about the [1948] election that Lyndon Johnson stole, I felt that I had been in on the beginning of history, because I was in on the first election that Lyndon Johnson stole.")

Congressman Lyndon Johnson, 1939: an obsession to control others propelled him along the path to power.

Johnson's first important political job was as Rep. Richard Kleberg's secretary in 1931. Kleberg, the heir to the enormous King Ranch, was good-natured and lackadaisical, but his secretary took up the slack and more.

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1983 Programs

Fellowships & Awards

The Institute will award $4,000 nonresidential summer fellowships, the **F. Leroy Hill Faculty Fellowships**, for research in disciplines of traditional interest to the Institute, especially history and political and legal theory, as well as philosophy and economics. Research should involve the historical expressions, institutions, or principles of a free society and/or spontaneous social order. Fellowships are restricted to faculty in the early stages of their careers. Applications consist of a two-page research proposal, an updated vita, and copies of relevant publications. Awards will be made on the basis of the research proposal's originality and the applicant's potential to contribute to the scholarship of liberty. Applications must be postmarked before March 25, 1983. Fellows will be notified on or before April 21, 1983. Apply to Leonard P. Liggio, President, IHS.

The Institute is pleased to announce the **Excellence in Liberty Prizes** for the two term papers—one undergraduate and one graduate—which best demonstrate excellence in research on liberty or on a topic related to liberty, such as in history, political theory, sociology, literature or economics. Each awardee will receive $500. Papers must be submitted by faculty members, and must have been written this year. The awards will be announced on July 4, 1983. Write to Leonard P. Liggio, President, IHS.

Several **nonresident summer research fellowships** in law and philosophy will be offered to law students in 1983 by the Institute. Fellowship grants totalling $15,000 will be made, and interested students should write to Professor Randy Barnett, Director, Law and Philosophy Program, IHS. Deadline March 15, 1983.

The Institute is proud to announce its **Claude R. Lambe fellowship program** for the 1983-84 academic year, which will recognize students with an interest in the tradition of classical liberalism and high academic performance. Undergraduate fellowships are up to $7,500 (tuition plus stipend), while graduate fellowships are up to $9,000. Walter E. Grinder, Vice President for Academic Programs, Claude R. Lambe Fellowship Program, IHS.

Conferences

The Institute in cooperation with FASL will again present a series of residential seminars, **Liberty and Society,** across the country during summer 1983. An advanced seminar in Austrian economics for undergraduates will also be offered at George Mason University. The seminars enhance students' understanding of the market economy and its indivisibility from political liberty. For applications to these seminars, write to Walter E. Grinder, Vice President for Academic Programs, IHS, P.O. Box 1149, Menlo Park, CA 94025.

The Institute, in association with the Liberty Fund, has scheduled three conferences thus far for the first half of 1983.

The Institute's 1983 summer residential research seminar, "Political Power and Economic Perspectives," will be held from June 13 to August 21 in Menlo Park, California. Inquiries from interested scholars should be addresses to Leonard P. Liggio, President, IHS.

On April 21-23, Professor Joseph Peden (Baruch College, CUNY) will moderate a colloquium, "The Legal, Ethical, and Psychiatric Conceptions of Responsibility," in Half Moon Bay, California.

The late Felix Morley provides the inspiration for the colloquium, "The Liberty and Responsibility of the Press," to be led by IHS President Leonard P. Liggio, on May 12-14 in Gibson Island, Maryland.

Publications

The ***Humane Studies Review*** is a study guide, published to help students learn the ideas and principles of classical liberalism. Its purpose is to enable students to work *systematically* through the literature, in order to gain a more comprehensive understanding of the intricacies of the classical liberal world view—its theoretical framework and its historical development.

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"An Outline of the History of Libertarian Thought" by David Hart

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"The Law Merchants" by Leon Trakman

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Growth

COMPANY	RECOMMENDED Date	RECOMMENDED Price(1)	Price 2-25-83	% Gain — Loss
NEW YORK STOCK EXCHANGE				
Ames Department Stores	11 - 4-66	1 1/16	41 7/8	3,841%
Anderson, Greenwood	9 - 3-82	12 3/8	11 3/4	—5
Automatic Data Proces.	9-10-66	1 5/16	36	2,643
Bard, C. R.	3-27-74	15	35 1/2	137
Barry Wright	7-22-80	15 3/4	23 7/8	52
Capital Cities Commun.	3 - 5-65	4 5/8	141	2,949
Carnation Co.	7 - 6-82	31 1/4	42 1/2	36
Centel Corp.	7-10-73	23 3/4	33 7/8	43
Conwood Corp.	6-13-78	12 7/8	41 3/8	221
Cullinet Software	8-12-80	5 5/8	33 1/2	496
Eckerd, Jack	9-10-66	1 1/4	27 1/2	2,100
Fort Howard Paper	7-10-73	12 3/8	49 1/4	298
(2)Gelco Corp.	11-11-70	7 3/8	20 3/4	181
(3)Genuine Parts	1 - 6-76	13 7/8	42	203
Harland, John H.	10-29-70	3 7/16	41 1/2	1,107
Helmerich & Payne	1-16-75	4 5/8	20	332
(9)Jostens	9-12-73	4 5/8	25 3/4	457
Kaneb Services	11-24-70	3 7/8	17 3/4	358
Kellogg	7-10-73	13 7/8	27	95
Keystone International	12-26-73	1 7/8	25 1/2	1,260
(4)Lilly, Eli	10-29-75	14 1/4	60 1/2	325
Limited, The	4-12-72	1/2	29	5,700
Longs Drug Stores	10-21-66	3 1/2	38 1/2	1,000
Luby's Cafeterias	12-22-75	2 3/8	32	1,247
Masco Corp.	1-22-65	1 3/16	29 5/8	2,395
Pacific Scientific	12 - 9-81	13 3/4	23 3/4	73
(5)Philip Morris	4-30-70	12 1/4	62	406
Prime Motor Inns	12 - 9-81	11 3/8	23	102
Republic New York Corp.	10-10-73	11 7/8	39 1/2	233
(6)Revco Drug Stores	11 - 9-66	1 9/16	42 1/2	2,620
(7)Reynolds (R.J.) Ind.	10 - 5-66	4 3/4	47	889
(10)Sabine Corp.	2-12-75	2 1/2	18 3/4	650
Safeguard Business Sys.	4-22-80	11 7/8	24 7/8	109
Smucker, J. M.	9 - 3-82	52 1/2	81	54
Texas Oil & Gas	6-10-65	1/2	36 5/8	7,225
Thompson Medical	2-10-83	26 1/2	30 1/8	14
Unit Drilling and Expl.	11-14-79	10 1/4	5 3/4	—44
(8)United Energy Resources	5-11-76	5 3/4	27	370
U. S. Tobacco	7-10-73	4 3/8	24 7/8	469
(11)Wallace Computer Serv.	1-28-75	4 3/8	27 3/8	526
Woods Petroleum	9-21-76	9	21 3/4	142
(12)Zero Corp.	12-26-78	4 3/4	27 7/8	487
AMERICAN STOCK EXCHANGE				
Acme United	8 - 9-77	4 7/8	19	290%
Bolar Pharmaceutical	8 - 7-79	4 5/8	31	570
Cross, A. T.	4-27-77	9 5/16	26 1/2	185
EnerServ Products	12 - 9-81	17 1/4	3	—83
Hipotronics	9 - 3-82	17	17 1/2	3
Hunt Manufacturing	10-24-73	2 3/4	17 5/8	541
Intertec Data Systems	12 - 9-81	22 3/8	14 1/2	—35
(17)LaMaur, Inc.	2-23-83	17 5/8	19 1/4	9
Luria, L., & Son	5-22-79	4 5/8	14 3/4	219
Matrix Corp.	9 - 3-82	19 1/4	41 1/8	114
Pall Corp.	6 - 7-77	4 15/16	38 3/4	685
Postal Instant Press	12 - 6-77	2 1/4	14 7/8	561
Telephone & Data Sys.	7-28-82	7 3/4	14 7/8	92
OVER-THE-COUNTER (Bid price only)				
Aceto Chemical	6-10-70	1 1/2	21	1,300%
(13)AlaTenn Resources	12 - 9-81	40	52	30
American Income Life	2-20-79	7 7/8	27 3/4	252
(14)American Pad & Paper	7-12-77	6 1/2	16 1/4	150
Bacardi Corp.	4-22-80	30 3/8	43	42
Barton Valve	12 - 9-81	27 5/8	7 1/4	—74
Bassett-Walker	2-23-83	33 1/4	33 1/2	1
BIW Cable Systems	12 - 9-81	11	17 1/4	57
C-Cor Electronics	9 - 3-82	22 1/4	20	—10
Cetus	12 - 9-81	13 3/4	15 1/8	10
Citizens Utilities 'B'	7-10-73	18 3/8	25 1/2	39
Clark, J.L., Mfg.	4 - 8-81	30 1/2	42 1/4	39
Commerce Clearing House	9 - 3-82	51 1/4	64	25
Computer Entry Systems	12 - 9-81	4 3/8	9 3/8	114
Crawford & Co.	5-27-75	2 1/4	19 1/2	767
Dawson Geophysical	12 - 9-81	13	7 3/8	—43
Durr-Fillauer Medical	5 - 6-75	1 7/16	17 1/2	1,117
E.I.L. Instruments	12 - 9-81	4	6	50
Food Town Stores	9 - 9-71	9/32	24 3/4	8,700
Gibson, C. R.	4-25-78	4 5/8	9 1/4	100
Gibson-Homans	6-15-72	4 1/8	14	239
Gray Commun. Sys.	7-22-80	34 1/2	44	28
Laidlaw Industries	9 - 3-82	9 1/2	22	132
Lawson Products	10-15-70	1 1/2	32 3/4	2,083
Lil' Champ Food Stores	3-12-74	3 1/2	21 1/2	514
Lin Broadcasting	5-22-79	9 5/8	38	295
Moore Products	6-28-79	18 1/2	31 3/4	72
(15)Noxell Corp.	3-10-81	14 3/8	29 7/8	108
Nuclear Support Services	11-15-82	8 1/2	14 3/4	74
Pandick Press	9 - 3-82	12 3/4	29	127
Pansophic Systems	9 - 3-82	11 1/4	25	122
Pay 'N Pak Stores	6-21-77	6 1/2	23 1/4	258
Pic 'n' Save	5-11-72	1 1/2	36 3/4	2,350
Plenum Publishing	1-24-79	10 3/8	38	266
RPM, Inc.	1-13-71	1 1/2	16	967
Sage Drilling	12 - 9-81	11 1/2	4 1/4	—63
ServiceMaster Industries	10-12-76	5 3/4	42 1/2	639
Shared Medical Systems	10-26-76	3 1/32	31 1/4	931
Sigma-Aldrich	7-25-73	8 3/8	42 1/4	404
(16)Standard Register	11-15-82	62	82	32
Stryker Corp.	7 - 8-80	7 7/8	26 3/4	240
Sykes Datatronics	11-14-79	1 3/4	11 3/8	550
Tennant Co.	1-16-75	11 1/4	18 1/4	62
TSI, Inc.	7 - 6-82	9 3/4	19 1/4	97
Tucker Drilling	4 - 8-81	16 1/4	8 3/8	—48
Vallen	7 - 6-82	11 1/4	13 3/4	22
WD-40	7 - 6-82	37 1/4	61	64
Wiser Oil	6-24-75	5 1/2	16	191
Woodhead, Daniel	3-29-77	5 1/2	11 1/2	109
(18)Worthington Industries	7-24-74	1 3/4	28 3/4	1,543

COMPANIES DELISTED 1980—1983

COMPANY	RECOMMENDED Date	RECOMMENDED Price	High Since Recom.	Delisted Date	Delisted Price
Gilford Inst. Lab.	6-21-77	10 1/2	20 1/8	3 - 3-80	11 1/2
Fleetwood Enter.	11-22-67	1 7/8	49 1/2	3 - 7-80	7 1/8
Furr's Cafeterias	8-25-71	11	28	3-25-80	28
American Family	11 - 9-76	8	15 5/8	5-15-80	8 1/8
Hickory Farms Ohio	6-22-76	8 3/8	20	8-15-80	20
Jamesbury Corp.	2 - 2-77	8 7/8	24 3/4	8-29-80	22
A.P.S., Inc.	7-22-75	6 5/8	12	10-14-80	8 3/8
Regal-Beloit	4 - 9-75	5 5/8	17 7/8	10-28-80	13 3/8
C. H. Heist	11-23-76	4 1/8	10 5/8	10-30-80	8 3/8
Brooks Fashion St.	1 - 6-76	6 3/8	28	12 - 4-80	15 1/2
Save-Way Ind.	8 - 7-79	9 1/4	14 1/2	12 - 8-80	12 1/8
Preway	4-25-78	7 5/8	18 15/16	3-30-81	13 1/4
Retirement Living	7-22-80	10 3/8	16 5/8	5 - 1-81	12
Coca-Cola	12-13-72	16 1/2	47 1/4	5-30-81	37 3/8
Carpenter Paper	7 - 8-80	15	27 1/8	7 - 1-81	27 1/8
General Autom.	4-12-72	28	55 1/4	10-31-81	55 1/4
Anthem Elec.	8-12-80	14 1/2	29 1/2	12-14-81	14 1/2
NCH Corp.	12 - 8-66	4	52 3/4	12-14-81	15
Revlon	10-10-73	30 5/8	59	12-14-81	30 1/2
Sullair	2-27-74	3	35 5/8	2 - 1-82	13 3/8
Crown Cork & Seal	6-27-73	21 5/8	37	3-31-82	26
Carolina Energies	3 - 5-65	2 5/8	28	4-30-82	28
Dome Petroleum	12 - 7-76	1 3/4	21 1/4	6 - 1-82	6 3/8
Pacesetter Corp.	3 - 9-76	2 7/8	20 1/2	6-29-82	8 1/2
Tymshare	11-12-75	6 1/2	57 3/4	6-29-82	15 5/8
Circle K Corp.	8-19-66	1 7/8	20	8-16-82	11 5/8
Heck's	8 - 4-67	1 1/4	13 7/8	9-10-82	10 5/8
Interco	3 - 1-73	17 5/8	57 1/4	9-10-82	43 1/2
Robbins & Myers	3-10-81	39 1/2	48 1/2	9-10-82	11 1/2
CGA Computer	7-22-80	6 5/8	17	11-30-82	8 3/4
Evans-Aristocrat	12-29-76	4 1/2	18 1/4	12-31-82	18 1/4
Brenco	1-22-65	1 1/4	25	1-30-83	9 3/4
Varco International	3-23-76	3 1/2	36	2-25-83	5 5/8

FOOTNOTES FOR STOCK LIST (at left)

(1) Adjusted for all stock splits and/or stock dividends. All merger prices and subsequent highs are adjusted and relative.
(2) Originally recommended as International Couriers (merger).
(3) Originally recommended as Motion Industries (merger).
(4) Originally recommended as Ivac Corp. (merger).
(5) Originally recommended as Seven-Up (merger).
(6) Originally recommended as Cole Drug (merger).
(7) Originally recommended as Kentucky Fried Chicken.
(8) Originally recommended as Cotton Petroleum (merger).
(9) May be selling out.
(10) Adjusted for spin-off of 1 unit of beneficial interest of Sabine Royalty Trust distributed Dec. 31 for each share of Sabine held Dec. 23.
(11) Adjusted for 2 for 1 split to be voted Mar. 15.
(12) Adjusted for 25% stock payable Mar. 7, record Feb. 14.
(13) 2 for 1 split to be voted May 2.
(14) Adjusted for 2 for 1 split to be voted Mar. 17.
(15) Adjusted for 2 for 1 split payable Mar. 4, record Jan. 28.
(16) 3 for 1 split proposed.
(17) 3 for 2 split payable May 17, record April 26.
(18) 4 for 3 split payable Mar. 31, record Mar. 10.

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* Oh, about those dwarfs. . .

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CHARLES ALLMON founded **Growth Stock Outlook** in 1965 when the DJIA was near its all-time high. A graduate of Purdue University at age 20, he served for many years as an editor at National Geographic. He has traveled in more than 60 countries, and his photographs and articles sparkle from ten National Geographic stories.

The Finance Club of Harvard Business School has hosted him twice. So has the Wharton School, University of Pennsylvania and the Yale Economic Forum. Allmon has appeared twice as a special guest on "Wall Street Week." The National Association of Investment Clubs honored Allmon with its "Distinguished Service Award" for his outstanding contribution to investment education.

The Wall Street Journal, Barron's, Forbes, The New York Times, Money, Changing Times, Financial World and many others have published feature articles on the editor of **Growth Stock Outlook.** Over the past two years, Charles Allmon has been heard on scores of radio programs across the United States by an estimated 10,000,000 people. His firm, **Growth Stock Outlook, Inc.,** currently manages more than $70 million for pension funds and private accounts.

Having at his disposal only the meager resources of an aide to an anti-New Deal congressman without seniority, Johnson worked day and night, learned Washington thoroughly, schemed and cajoled, caressed and annihilated. Even in a city brimming with ambitious young men, Johnson stood out. By 1934, there had been only two statewide political machines in Texas's history. One was the machine of Jim "Pa" Ferguson, a legendary governor. The other was that of Lyndon Johnson, a 26-year-old congressional aide.

Critical to Johnson's rise to power was his relationship with George Brown, and Caro describes it in detail for the first time. In the mid-'30s, Brown—a small-time contractor—wangled a public-works contract for the $10-million Marshall Ford Dam in Texas under unusual circumstances. The comptroller general was appropriating money for the dam even before it had received congressional authorization. Moreover, after Brown had borrowed $1.5 million to purchase construction equipment, the Bureau of Reclamation learned that the federal government didn't even own the riverbed on which the dam was being built and threatened to cut off all funding on the project.

Worst of all, the congressman on whom Brown was relying to clear up these complications—House Public Works Committee Chairman James "Buck" Buchanan—suddenly died. A total of $10 million worth of business was in jeopardy. Brown and his chief political fixer, Alvin Wirtz, were desperate.

The Path to Power tells how Brown and Wirtz found Johnson and financed his first race for Congress (it was for Buchanan's seat) and how, after he was elected, Johnson saved the dam with the help of Abe Fortas and William O. Douglas, among others.

Nor did the Johnson-Brown relationship end there: even though he had never even seen a ship being built, Brown received a $100-million Navy contract during World War II, and it is likely that Johnson interceded with Roosevelt to stop an IRS investigation of Brown's company. A huge financial empire was born with Johnson as midwife. In return, Brown and a small group of Texas oilmen not only helped to finance Johnson's own campaigns but also established an unprecedented fund under Johnson's control to contribute to 1940 congressional candidates around the country. It is altogether one of the most remarkable and unnerving stories in recent political literature.

What made Johnson so distinctive as a politician? First was his byzantine duplicity—he double-crossed even mentors such as Roosevelt and House Speaker Sam Rayburn. Second was his compulsive secretiveness that led him essentially to rewrite his own history with falsehoods. People of a certain age who remember the phrase "credibility gap" will be interested to learn how early in Johnson's life the gap opened.

Caro also portrays Johnson as strikingly free of any political principle or ideology whatsoever. He was, more precisely, chameleon-like. For example, one summer he worked for one of the most right-wing members of Congress, Richard Kleberg, as well as for one of the most left-wing members, Maury Maverick. He was privately contemptuous of the New Deal, but he won his first race for Congress largely by identifying himself as a Roosevelt man and endorsing FDR's "court-packing" plan. During the contest between Roosevelt and John Nance Garner for the 1940 Democratic presidential nomination, a contest that divided Texas politicians, both sides

The Voluntaryist

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Editor: ***Wendy McElroy***
Contributing Editors: ***Carl Watner and George H. Smith***

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firmly believed that Johnson was on their side.

But for all this, Caro's Lyndon Johnson cannot be casually reduced to an evil genius. During the depression, when mortgage companies were foreclosing on farms in Kleberg's district, Johnson devised a brilliantly inventive financing mechanism by which both the farmers and mortgage companies benefited. At taxpayer expense, he brought electrification, which is to say he brought much of modern civilization, to the Hill Country, and he personally taught improved farming methods to scores and maybe hundreds of farmers in his district. And these were as much in character for Lyndon Johnson as was his mendacity and brutality.

For those happy few whose interests temporarily coincided with Johnson's—usually because they had money or votes or power that he coveted—Lyndon Johnson was a blessing. But the circle of Lyndon Johnson's victims was there from the start, and it grew as his victories grew.

Because he went to astonishing lengths to falsify his own past, Lyndon Johnson is a peculiarly difficult subject for a political biographer. But if anyone is equal to the task, it's Robert Caro. An investigative reporter by profession, Caro's only book before this, *The Power Broker*, was a splendid biography in 1974 of New York boss Robert Moses. It won both the Pulitzer Prize and the Society of American Historians' Francis Parkman Prize. Justly so. No other American political biographer of Caro's generation has anything like his extraordinary understanding of power, his tenacity as an investigator, and his gifts as a writer. So it's no surprise that *The Path to Power* is the best biography of a 20th-century American politician to be published in years.

Paul Gordon is an assistant editor of REASON.

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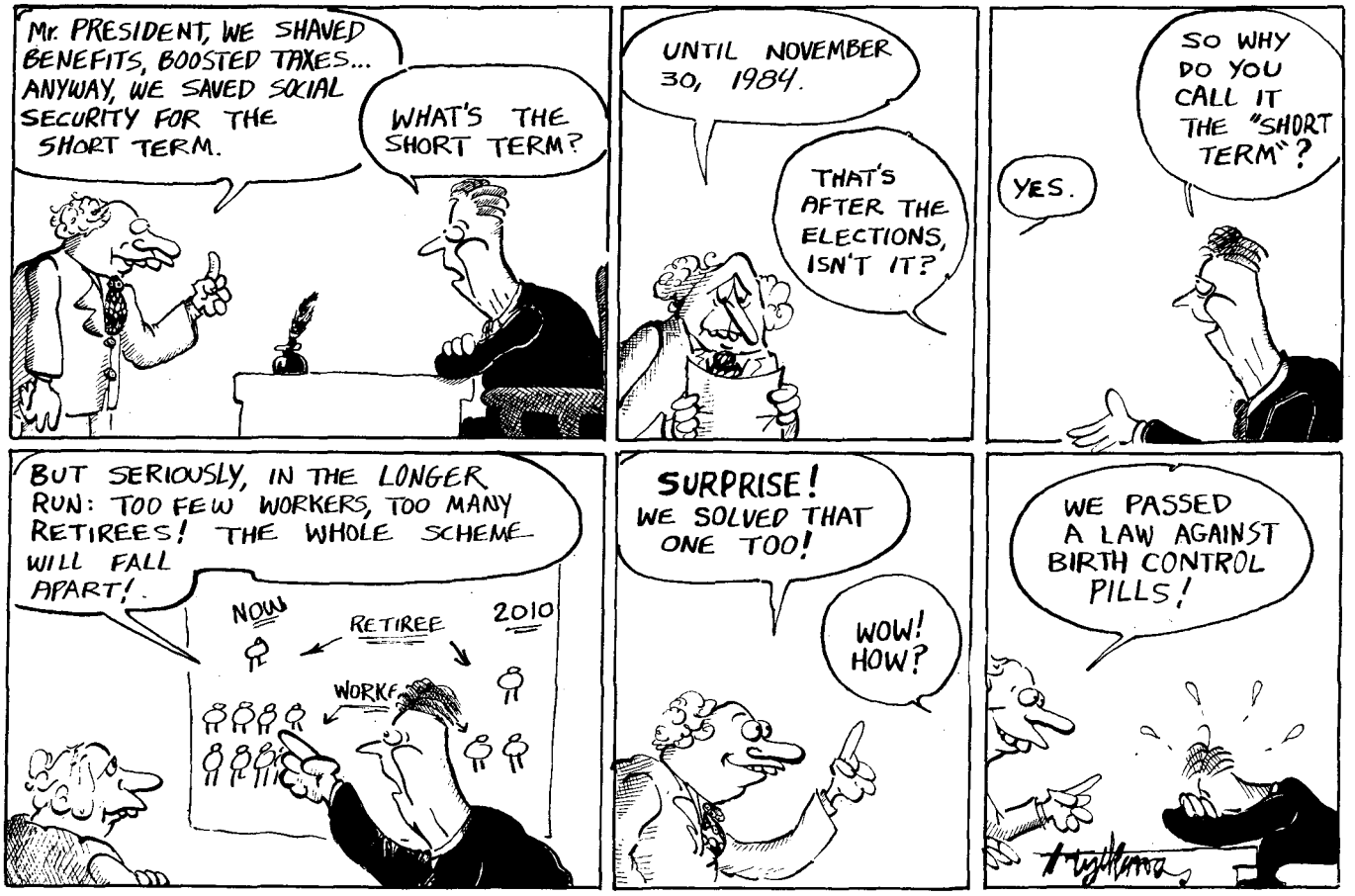
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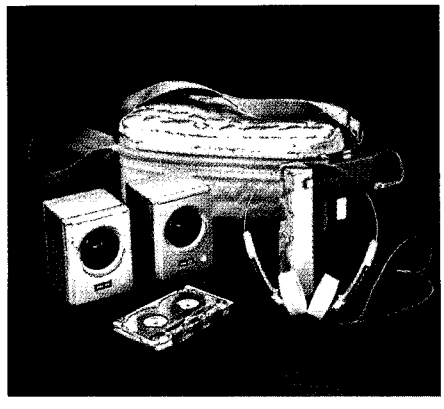

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